

FORM 5

QUARTERLY LISTING STATEMENT

Name of Listed Issuer: Verano Holdings Corp. (the “**Issuer**”).

Trading Symbol: VRNO

This Quarterly Listing Statement must be posted on or before the day on which the Issuer’s unaudited interim financial statements are to be filed under the *Securities Act*, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer’s first, second and third fiscal quarters. This statement is not intended to replace the Issuer’s obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

General Instructions

- (a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.
- (b) The term “Issuer” includes the Listed Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

SCHEDULE A: FINANCIAL STATEMENTS

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

Please see the Issuer's unaudited condensed interim consolidated financial statements as of and for the fiscal quarter ended June 30, 2023, attached hereto as Schedule A (the "**Interim Financial Statements**").

SCHEDULE B: SUPPLEMENTARY INFORMATION

The supplementary information set out below must be provided when not included in Schedule A.

Not applicable and therefore no Schedule B is attached hereto.

1. Related party transactions

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

- (a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
- (b) A description of the transaction(s), including those for which no amount has been recorded.
- (c) The recorded amount of the transactions classified by financial statement category.
- (d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
- (e) Contractual obligations with Related Persons, separate from other contractual obligations.
- (f) Contingencies involving Related Persons, separate from other contingencies.

The Issuer has entered into or maintains the following related party transactions:

- George Archos, the Issuer's Chief Executive Officer and Chairman, is a lender under the Credit Agreement, dated as of October 27, 2022, by and among the Issuer, subsidiaries of the Issuer from time-to-time party thereto, lenders from time-to-time party thereto, and Chicago Atlantic Admin, LLC, as administrative agent for the lenders (the "**Credit Agreement**"). Mr. Archos funded USD\$1,000,000 of the USD\$350,000,000 funded by the lenders under the Credit Agreement. As of June 30, 2023, the outstanding principal owed to Mr. Archos pursuant to the Credit Agreement was USD\$1,000,000. During the six months ended June 30, 2023, the Issuer made no principal payments and interest payments of USD\$71,123.29 to Mr. Archos. The outstanding indebtedness under

the Credit Agreement, including Mr. Archos' principal balance, bears interest at a floating rate equal to the prime rate then in effect plus 6.50%, which rate may be increased by 3% upon an event of default or 6% upon a material event of default, each as provided in the Credit Agreement.

- John Mitch Tipton, the immediate family member of John Tipton, the Issuer's President of the Southern Region, was employed by Plants of Ruskin, LLC prior to the Issuer acquiring Plants of Ruskin, LLC. Currently Mitch Tipton serves as the Issuer's Executive Vice President, Director of Cultivation. As compensation for such position for the six months ended June 30, 2023, John Mitch Tipton has received an annual cash salary of USD\$108,653.84, a cash bonus of USD\$30,000 and the issuance of 47,102 Issuer restricted stock units, which had a fair market value of USD\$133,555.99 on the date of grant.

Each of Mr. Archos' and Mr. Tipton's related party transactions were approved by the Issuer's audit committee pursuant to the Issuer's Related Party Transaction Policy.

Please also see the following Notes in the Interim Financial Statements: (i) Note 7 (Debt) and (ii) Note 8(b) (Stock-Based Compensation).

2. Summary of securities issued and options granted during the period.

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

(a) summary of securities issued during the period,

During the period the Issuer (i) issued the following Class A subordinate voting shares ("**SV Shares**") upon the vesting and settlement of restricted stock units granted under the Issuer's Stock and Incentive Plan on a one-for-one basis ("**RSUs**"), (ii) issued SV Shares upon the Issuer's exercise of its option to exchange all of the Issuer's Class B Proportionate Voting Shares ("**PV Shares**") then outstanding into SV Shares on a one-for one hundred basis and (iii) granted the following RSUs:

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number	Price	Total Proceeds	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid
March 6, 2023	SV Shares	Issued upon the vesting and settlement of RSUs	119,626	\$0 (compensatory)	\$0	N/A	Related and unrelated persons: officers and employees	\$0
March 9, 2023	SV Shares	Issued upon the vesting and settlement of RSUs	191,313	\$0 (compensatory)	\$0	N/A	Related and unrelated persons: officers and employees	\$0
March 24, 2023	SV Shares	Issued in exchange for PV Shares of the Issuer on a one-for-one basis	13,337,286	\$0 (exchanged on a one-for-one basis)	\$0	N/A	Related and unrelated persons: holders of PV Shares	\$0
March, 28, 2023	RSUs	Issued under the Issuer's Stock and Incentive Plan	1,170,418	\$0 (compensatory)	\$0	N/A	Related and unrelated persons: officers and employees	\$0
April 12, 2023	SV Shares	Issued upon the vesting and settlement of RSUs	555,424	\$0 (compensatory)	\$0	N/A	Related and unrelated persons: officers and employees	\$0
May 5, 2023	SV Shares	Issued upon the vesting and settlement of RSUs	197,623	\$0 (compensatory)	\$0	N/A	Related and unrelated persons: officers and employees	\$0

FORM 5 – QUARTERLY LISTING STATEMENT

January 2015

Page 4

May 12, 2023	SV Shares	Issued upon the vesting and settlement of RSUs	3,523	\$0 (compensatory)	\$0	N/A	Related and unrelated persons: officers and employees	\$0
June 1, 2023	RSUs	Issued under the Issuer's Stock and Incentive Plan	7,799,330	\$0 (compensatory)	\$0	N/A	Related and unrelated persons: officers and employees	\$0
June 2, 2023	SV Shares	Issued upon the vesting and settlement of RSUs	15,002	\$0 (compensatory)	\$0	N/A	Related and unrelated persons: officers and employees	\$0
June 23, 2023	SV Shares	Issued upon the vesting and settlement of RSUs	821,102	\$0 (compensatory)	\$0	N/A	Related and unrelated persons: officers and employees	\$0
June 28, 2023	RSUs	Issued under the Issuer's Stock and Incentive Plan	288,861	\$0 (compensatory)	\$0	N/A	Related and unrelated persons: officers and employees	\$0

(b) summary of options granted during the period,

No options were granted during this period.

FORM 5 – QUARTERLY LISTING STATEMENT

January 2015
Page 5

3. Summary of securities as at the end of the reporting period.

Provide the following information in tabular format as at the end of the reporting period:

- (a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,
- (b) number and recorded value for shares issued and outstanding,

Class of Shares	Authorized Number and Description of Security	Number and Recorded Value for Shares Issued and Outstanding as of June 30, 2023
SV Shares	<p>Authorized: Unlimited</p> <p>Convertible into 1/100th of a PV Share of the Issuer's Proportionate Voting in the event of specified offers for PV Shares or at the holder's options (subject to approval of the board of directors of the Issuer)</p>	<p>343,367,514.0738 SV Shares issued and outstanding</p> <p>Value reported on Interim Financial Statements of USD\$1,673,049,000.00</p> <p>Market value on June 30, 2023, of CAD\$1,339,133,304.89 based on closing price on the Canadian Securities Exchange of CAD\$3.90</p>
Class B Proportionate Voting Shares	<p>Authorized: Unlimited</p> <p>Exchangeable into SV Shares at a ratio of 100 SV Shares per one PV Share at the holder's option. Exchangeable into SV Shares at the Issuer's option if the Issuer is subject to the reporting requirements of Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, and the SV Shares are listed or quoted on a recognized North American stock exchange.¹</p>	<p>0 PV Shares issued and outstanding</p>

(1) The Issuer exercised its option and all outstanding PV Shares were converted to SV Shares on March 24, 2023.

- (c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and

Please see the Tables in Parts 2(a) and 2(b) above and Note 8 (Share Capital) in the Interim Financial Statements for information regarding the Issuer's options, RSUs, warrants and convertible notes.

FORM 5 – QUARTERLY LISTING STATEMENT

January 2015
Page 7

- (d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

Class of Shares	Number of Shares Subject to Lock-Up Agreements as of June 30, 2023
SV Shares	526,920.90
PV Shares	0

4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.

Name	Position(s) Held
George Archos	Chairman & Chief Executive Officer
John Tipton	Director & President of the Southern Region
Darren Weiss	President
Brett Summerer	Chief Financial Officer
Trip McDermott	Chief Operating Officer
Aaron Miles	Chief Investment Officer
Destiny Thompson	Chief People Officer
Laura Kalesnik	Chief Legal Officer, General Counsel and Secretary
David Spreckman	Chief Marketing Officer
Richard Tarapchak	Executive Vice President, Finance – Corporate Controller
Cristina Nuñez	Director
Lawrence Hirsh	Director
Charles Mueller	Director

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

Provide Interim MD&A if required by applicable securities legislation.

Please see the Issuer's Management's Discussion & Analysis for the three and six months ended June 30, 2022 and 2023 attached hereto as Schedule C.

Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.
2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated August 8, 2023.

Laura Marie Kalesnik
Name of Director or Senior Officer

/s/ Laura Marie Kalesnik
Signature

Chief Legal Officer, General Counsel
and Secretary
Official Capacity

Issuer Details Name of Issuer	For Quarter Ended	Date of Report
Verano Holdings Corp.	June 30, 2023	23/08/08
Issuer Address		
415 North Dearborn Street, 4 th Floor		
City/Province/Postal Code	Issuer Fax No.	Issuer Telephone No.
Chicago, IL 60654	N/A	(312) 265-0730
Contact Name	Contact Position	Contact Telephone No.
Aaron Miles	Chief Investment Officer	(312) 265-0730
Contact Email Address	Web Site Address	
investors@verano.com	http://www.verano.com	

FORM 5 – QUARTERLY LISTING STATEMENT

January 2015
Page 9

PART I - FINANCIAL INFORMATION**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

VERANO HOLDINGS CORP.
Condensed Consolidated Balance Sheets
(\$ in Thousands)

	<u>June 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
	<i>(Unaudited)</i>	
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 102,579	\$ 84,851
Accounts Receivable, net	28,658	16,580
Held for Sale Assets	1,735	3,433
Inventory	144,888	164,532
Prepaid Expenses and Other Current Assets	41,070	48,879
Total Current Assets	318,930	318,275
Property, Plant and Equipment, net	519,284	525,905
Right of Use Assets, net	84,249	82,278
Intangible Assets, net	1,135,036	1,180,766
Goodwill	269,282	269,088
Investment in Associates	6,716	6,977
Deposits and Other Assets	13,306	12,766
TOTAL ASSETS	\$ 2,346,803	\$ 2,396,055
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 34,728	\$ 40,501
Accrued Liabilities	53,676	41,762
Income Tax Payable	227,086	252,767
Current Portion of Lease Liabilities	9,372	8,889
Current Portion of Debt	21,425	24,464
Acquisition Consideration Payable	2,032	18,262
Total Current Liabilities	348,319	386,645
Long-Term Liabilities:		
Debt, net of Current Portion	398,953	388,540
Lease Liabilities, net of Current Portion	78,926	76,853
Deferred Income Taxes	189,307	196,473
Other Long-Term Liabilities	4,954	5,994
Total Long-Term Liabilities	672,140	667,860
TOTAL LIABILITIES	\$ 1,020,459	\$ 1,054,505
Contingencies and Other (See Note 11)		
SHAREHOLDERS' EQUITY	1,326,344	1,341,550
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,346,803	\$ 2,396,055

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

VERANO HOLDINGS CORP.
Unaudited Interim Condensed Consolidated Statements of Operations
(\$ in Thousands except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues, net of Discounts	\$ 234,115	\$ 223,662	\$ 461,175	\$ 425,897
Cost of Goods Sold, net	118,924	125,547	236,799	229,165
Gross Profit	115,191	98,115	224,376	196,732
Selling, General, and Administrative Expenses	84,660	100,263	159,908	189,824
Income (Loss) from Investments in Associates	(101)	(144)	(261)	1,860
Income (Loss) from Operations	30,430	(2,292)	64,207	8,768
Other Income (Expense), net:				
Loss on Disposal of Property, Plant and Equipment	(388)	(203)	(322)	(1,192)
Gain (Loss) on Deconsolidation	—	(73)	—	9,485
Gain (Loss) on Previously Held Equity Interest	—	(171)	—	13,928
Loss on Debt Extinguishment	—	—	(663)	—
Interest Expense, net	(14,013)	(11,624)	(29,918)	(22,295)
Other Income (Expense), net	(1,411)	15,619	397	18,153
Total Other Income (Expense), net	(15,812)	3,548	(30,506)	18,079
Income Before Provision for Income Taxes and Non-Controlling Interest	14,618	1,256	33,701	26,847
Provision For Income Taxes	(27,679)	(11,103)	(55,999)	(36,617)
Net Loss Before Non-Controlling Interest	(13,061)	(9,847)	(22,298)	(9,770)
Net Income Attributable to Non-Controlling Interest	—	—	—	291
Net Loss Attributable to Verano Holdings Corp. & Subsidiaries	\$ (13,061)	\$ (9,847)	\$ (22,298)	\$ (10,061)
Net Loss per share – basic	\$ (0.04)	\$ (0.03)	\$ (0.07)	\$ (0.03)
Net Loss per share – diluted	\$ (0.04)	\$ (0.03)	\$ (0.07)	\$ (0.03)
Basic – weighted average shares outstanding	342,533,911	328,519,193	342,006,385	327,402,503
Diluted – weighted average shares outstanding	342,533,911	328,519,193	342,006,385	327,402,503

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

VERANO HOLDINGS CORP.
Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
(\$ in Thousands)

	SVS Shares (as converted)	Share Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings (Deficit)	Non- Controlling Interest	Total
Balance as of April 1, 2022 (As Restated)	327,868,398	\$ 1,578,232	\$ —	\$ (55,449)	\$ —	\$ 1,522,783
Share-based compensation	26,570	12,523	—	—	—	12,523
Issuance of shares in conjunction with acquisitions	808,258	5,540	—	—	—	5,540
Contingent consideration & other adjustments to purchase accounting	2,115,438	17,726	—	—	—	17,726
Net loss	—	—	—	(9,847)	—	(9,847)
Balance as of June 30, 2022	<u>330,818,664</u>	<u>\$ 1,614,021</u>	<u>\$ —</u>	<u>\$ (65,296)</u>	<u>\$ —</u>	<u>\$ 1,548,725</u>
	SVS Shares (as converted)	Share Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings (Deficit)	Non- Controlling Interest	Total
Balance as of April 1, 2023	342,330,264	\$ 1,670,116	\$ (9)	\$ (333,636)	\$ —	\$ 1,336,471
Share-based compensation	824,625	3,976	—	—	—	3,976
Issuance of shares to relieve liability obligations	212,625	(1,043)	—	—	—	(1,043)
Foreign currency translation adjustment	—	—	1	—	—	1
Contingent consideration & other adjustments to purchase accounting	—	—	—	—	—	—
Net loss	—	—	—	(13,061)	—	(13,061)
Balance as of June 30, 2023	<u>343,367,514</u>	<u>\$ 1,673,049</u>	<u>\$ (8)</u>	<u>\$ (346,697)</u>	<u>\$ —</u>	<u>\$ 1,326,344</u>

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

VERANO HOLDINGS CORP.
Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Continued)
(\$ in Thousands)

	SVS Shares (as converted)	Share Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings (Deficit)	Non- Controlling Interest	Total
Balance as of January 1, 2022 (As Restated)	324,312,662	\$ 1,535,765	\$ —	\$ (55,235)	\$ 1,276	\$ 1,481,806
Share-based compensation	797,907	24,265	—	—	—	24,265
Issuance of shares in conjunction with acquisitions	2,211,325	18,760	—	—	—	18,760
Non-controlling interest adjustment for change in ownership	—	—	—	—	(1,567)	(1,567)
Contingent consideration & other adjustments to purchase accounting	3,496,770	35,231	—	—	—	35,231
Net income (loss)	—	—	—	(10,061)	291	(9,770)
Balance as of June 30, 2022	<u>330,818,664</u>	<u>\$ 1,614,021</u>	<u>\$ —</u>	<u>\$ (65,296)</u>	<u>\$ —</u>	<u>\$ 1,548,725</u>
	SVS Shares (as converted)	Share Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings (Deficit)	Non- Controlling Interest	Total
Balance as of January 1, 2023	339,983,374	\$ 1,665,957	\$ (8)	\$ (324,399)	\$ —	\$ 1,341,550
Share-based compensation	942,573	4,482	—	—	—	4,482
Issuance of shares to relieve liability obligations, net	816,021	2,610	—	—	—	2,610
Foreign currency translation adjustment	—	—	—	—	—	—
Contingent consideration & other adjustments to purchase accounting	1,625,546	—	—	—	—	—
Net loss	—	—	—	(22,298)	—	(22,298)
Balance as of June 30, 2023	<u>343,367,514</u>	<u>\$ 1,673,049</u>	<u>\$ (8)</u>	<u>\$ (346,697)</u>	<u>\$ —</u>	<u>\$ 1,326,344</u>

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

VERANO HOLDINGS CORP.
Unaudited Interim Condensed Consolidated Statements of Cash Flows
(\$ in Thousands)

	Six Months Ended June 30,	
	2023	2022
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss attributable to Verano Holdings Corp. and Subsidiaries	\$ (22,298)	\$ (10,061)
Net income attributable to non-controlling interest	—	291
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	70,293	69,911
Stock based compensation	4,292	24,405
Right of use assets amortization	5,189	4,179
Non-cash interest expense	593	1,016
Loss on disposal of property, plant and equipment	322	1,192
Gain on deconsolidation	—	(9,485)
Gain on investments in associates	—	(13,928)
Loss on debt extinguishment	663	—
Unrealized loss on marketable securities	257	2,148
Decrease in fair value of contingent consideration	(3,466)	(9,102)
Other, net	2,420	4,907
Changes in operating assets and liabilities:		
Accounts receivable	(11,302)	4,157
Accounts payable	(8,707)	14,686
Inventory	19,833	(19,927)
Income tax payable	(25,876)	5,508
Other assets, net	5,956	(6,128)
Other liabilities, net	2,571	(20,121)
NET CASH PROVIDED BY OPERATING ACTIVITIES	40,740	43,648
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(16,541)	(86,851)
Proceeds from disposal of assets	2,172	1,841
Acquisition of business, net of cash acquired	(13,250)	(94,042)
Proceeds from sale of deconsolidation and investment in associates	—	19,576
NET CASH USED IN INVESTING ACTIVITIES	(27,619)	(159,476)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt	32,167	120,774
Principal repayments of debt	(26,876)	(8,245)
Debt issuance costs paid	(684)	(2,986)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,607	109,543
Effects of exchange rate fluctuations on cash and cash equivalents	—	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,728	(6,285)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	84,851	99,118
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 102,579	\$ 92,833

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

VERANO HOLDINGS CORP.
Unaudited Interim Condensed Consolidated Statements of Cash Flows (Continued)
(\$ in Thousands)

	Six Months Ended June 30,	
	2023	2022
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net	\$ 30,191	\$ 10,608
NONCASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures	\$ 6,521	\$ 3,296
Issuance of shares to relieve liability obligations, net	\$ 2,610	\$ —
Issuance of shares under business combinations	\$ —	\$ 53,950
Acquisitions		
Tangible and intangible assets acquired, net of cash	\$ —	\$ 17,533
Liabilities assumed	(194)	(4,362)
Acquisition consideration payable	13,250	72,364
Goodwill	194	8,507
	<u>\$ 13,250</u>	<u>\$ 94,042</u>

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

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

1. OVERVIEW AND BASIS OF PRESENTATION

(a) Description of Business

Unless otherwise stated or the context requires otherwise, references herein to the “Company,” “Verano,” “we,” “us,” and “our” mean Verano Holdings Corp. and its direct and indirect subsidiaries, and controlled and managed entities.

The Company is a vertically integrated cannabis operator that focuses on limited-licensed markets in the U.S. As a vertically integrated provider, the Company owns, operates, manages, controls, and/or has licensing, consulting or other commercial agreements with cultivation, processing, and retail licenses across 13 state markets (Arizona, Arkansas, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Nevada, New Jersey, Ohio, Pennsylvania, and West Virginia).

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

The Company’s Class A subordinate voting shares (the “Subordinate Voting Shares”) are listed on the Canadian Securities Exchange (the “CSE”), under the ticker symbol “VRNO” and are quoted in the United States on the OTCQX marketplace operated by the OTC Market Group, under the ticker symbol “VRNOF”.

The Company’s corporate headquarters is located at 415 North Dearborn St., 4th Floor, Chicago, Illinois 60654.

(b) Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Accordingly, certain information and disclosures required by GAAP for annual financial statements have been omitted. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Unless otherwise indicated, all references to “\$” or “US\$” in this document refer to United States dollars, and all references to “C\$” refer to Canadian dollars. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2022 (the “2022 Annual Audited Financials”), included in the Company’s Annual Report on Form 10-K filed with the SEC on March 30, 2023 (the “Form 10-K”). Certain prior year amounts have been reclassified to conform to the current year’s presentation, which the Company does not consider to be material. The accompanying unaudited interim condensed consolidated financial statements include the accounts of Verano Holdings Corp. and its direct and indirect subsidiaries as well as the accounts of any entities over which the Company has a controlling financial interest in accordance with Accounting Standards Codification (“ASC”) 810 *Consolidation*. The preparation of the Company’s unaudited interim condensed consolidated financial statements requires management to make estimates and assumptions that impact the reported amounts of assets, liabilities, revenue and expenses and the disclosure of assets and liabilities in such financial statements and in the accompanying notes. Actual results may differ materially from these estimates. The results of operations for the three and six months ended June 30, 2023 are not necessarily indicative of the results to be expected for the 2023 full year or any future periods. The accompanying consolidated balance sheet as of December 31, 2022 has been derived from the audited consolidated balance sheet as of December 31, 2022 contained in the Form 10-K.

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

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

(c) Basis of Consolidation

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

(d) Significant Accounting Policies

There have been no changes to the Company's significant accounting policies as described in *Note 2 - Significant Accounting Policies* to the 2022 Annual Audited Financials included in the Form 10-K.

(e) Earnings (Loss) per Share

Basic earnings (loss) per share is calculated using the treasury stock method, by dividing the net earnings (losses) attributable to shareholders by the weighted average number of shares (including the Company's Class B proportionate voting shares (the "Proportionate Voting Shares") on an as converted to Subordinate Voting Shares basis of 100 Subordinate Voting Shares to one Proportionate Voting Share) outstanding during each of the periods presented. Contingently issuable shares (including shares held in escrow) are not considered outstanding shares and consequently are not included in the earnings (loss) per share calculations. Diluted income per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares.

To determine diluted income per share, the Company assumes that any proceeds from the exercise of dilutive share options would be used to repurchase shares at the average market price during the period. The diluted income per share calculation excludes any potential conversion of share options and convertible debt, if any, that would increase earnings per share or decrease loss per share. No potentially dilutive share equivalents were included in the computation of diluted loss per share for the three and six months ended June 30, 2023 and 2022 because their impact would have been anti-dilutive.

(f) Recently Issued Accounting Standards

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

2. INVENTORY

The Company's inventory consists of the following as of June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Raw Materials	\$ 4,558	\$ 7,120
Work in Process	109,436	123,101
Finished Goods	30,894	34,311
Total Inventory	\$ 144,888	\$ 164,532

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and related accumulated depreciation consists of the following as of June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Land	\$ 31,817	\$ 31,877
Buildings and Improvements	197,453	197,819
Furniture and Fixtures	17,841	16,189
Computer Equipment and Software	23,687	21,478
Leasehold Improvements	223,352	211,785
Tools and Equipment	89,379	88,507
Vehicles	4,297	4,992
Assets Under Construction ⁽¹⁾	43,072	41,800
Total Property, Plant and Equipment, Gross	630,898	614,447
Less: Accumulated Depreciation	(111,614)	(88,542)
Property, Plant and Equipment, Net	\$ 519,284	\$ 525,905

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

For the three months ended June 30, 2023 and June 30, 2022, depreciation expense included in costs of goods sold totaled \$8,532 and \$7,311, respectively. For the three months ended June 30, 2023 and June 30, 2022, depreciation expense included in selling, general, and administrative expense totaled \$3,840 and \$3,178, respectively.

For the six months ended June 30, 2023 and June 30, 2022, depreciation expense included in costs of goods sold totaled \$17,056 and \$14,368, respectively. For the six months ended June 30, 2023 and June 30, 2022, depreciation expense included in selling, general, and administrative expense totaled \$7,507 and \$5,719, respectively.

4. INTANGIBLE ASSETS AND GOODWILL

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

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

4. INTANGIBLE ASSETS AND GOODWILL (Continued)

As of June 30, 2023, intangible assets consisted of the following:

	Licenses	Tradenames	Technology	Total
<u>Cost</u>				
Balance as of January 1, 2023	\$ 1,274,981	\$ 54,166	\$ 6,431	\$ 1,335,578
Balance as of June 30, 2023	<u>\$ 1,274,981</u>	<u>\$ 54,166</u>	<u>\$ 6,431</u>	<u>\$ 1,335,578</u>
<u>Accumulated Amortization</u>				
Balance as of January 1, 2023	143,246	9,579	1,987	154,812
Amortization	42,500	2,711	519	45,730
Balance as of June 30, 2023	<u>\$ 185,746</u>	<u>\$ 12,290</u>	<u>\$ 2,506</u>	<u>\$ 200,542</u>
<u>Net Book Value</u>				
Balance as of January 1, 2023	1,131,735	44,587	4,444	1,180,766
Balance as of June 30, 2023	<u>\$ 1,089,235</u>	<u>\$ 41,876</u>	<u>\$ 3,925</u>	<u>\$ 1,135,036</u>

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

The following table outlines the estimated annual amortization expense related to intangible assets as of June 30, 2023:

Year Ending December 31:	Estimated Amortization
2023 (Remaining)	\$ 45,730
2024	91,461
2025	91,461
2026	90,746
2027	90,672
Thereafter	724,966
	<u>\$ 1,135,036</u>

The changes in the carrying amount of goodwill, by reportable segment, for the six months ended June 30, 2023 were as follows:

	January 1, 2023	Impairment	Adjustments to purchase price allocation	Acquisitions	June 30, 2023
Cultivation	\$ 83,004	\$ —	\$ —	\$ —	\$ 83,004
Retail	186,084	—	194	—	186,278
Total	<u>\$ 269,088</u>	<u>\$ —</u>	<u>\$ 194</u>	<u>\$ —</u>	<u>\$ 269,282</u>

As of June 30, 2023, the Company recorded a measurement period adjustment in connection with the September 7, 2022 acquisition of WSCC, Inc. The net impact led to an increase of \$194 to goodwill. The Company obtained additional information about the facts and circumstances that existed at the time of the acquisition date that led to changes in provisional amounts recognized in the initial opening financials for income taxes.

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

5. EARNINGS (LOSSES) PER SHARE

The Company presents basic earnings (losses) per share. Basic earnings (losses) per share is calculated by dividing the earnings (loss) attributable to shareholders by the weighted average number of Subordinate Voting Shares (with outstanding Proportionate Voting Shares, if any, accounted for on an as converted to Subordinate Voting Shares basis) outstanding during the periods presented. Diluted earnings (losses) per share is computed based on the weighted average number of Subordinate Voting Shares (with outstanding Proportionate Voting Shares, if any, accounted for on an as converted to Subordinate Voting Shares basis) outstanding, to the extent dilutive.

The computations of net earnings (loss) per share on a basic and diluted basis, including reconciliations of the numerators and denominators, for the three and six months ended June 30, 2023 and June 30, 2022 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Numerator				
Net Loss attributable to Verano Holdings Corp. & Subsidiaries	\$ (13,061)	\$ (9,847)	\$ (22,298)	\$ (10,061)
Denominator				
<u>Basic</u>				
Weighted-average shares outstanding – basic	342,533,911	328,519,193	342,006,385	327,402,503
<u>Diluted</u>				
Weighted-average shares outstanding – diluted	342,533,911	328,519,193	342,006,385	327,402,503
Net Loss per share - basic	\$ (0.04)	\$ (0.03)	\$ (0.07)	\$ (0.03)
Net Loss per share - diluted	\$ (0.04)	\$ (0.03)	\$ (0.07)	\$ (0.03)

Potentially dilutive securities of approximately 1,258,191 and 814,672 for the three and six months ended June 30, 2023 were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

6. TRANSACTIONS

Business Combinations

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

The purchase price allocations for the acquisitions reflect various fair value estimates and analyses which are subject to change within the measurement period, which is the one-year period subsequent to the acquisition date. The primary areas of the purchase price allocation that are subject to change relate to the fair value of certain tangible assets, the value of intangible assets acquired, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period.

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

6. TRANSACTIONS *(Continued)*

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

2022 Business Combinations

420 Capital Management, LLC

On April 5, 2021, Verano entered into an agreement to purchase 100% of the equity interests of 420 Capital Management, LLC ("Greengate"). Greengate is the license holder and operator of the Lombard and Roger's Park dispensaries located in Illinois. The transaction received state regulatory approval in February 2022 and subsequently closed on March 11, 2022.

Total consideration included cash of \$7,448, forgiveness of other receivables of \$2,894, and equity consideration of 1,403,067 Subordinate Voting Shares valued at \$13,221 based on the fair value of the Subordinate Voting Shares as traded on the CSE on the date of the transaction, all of which was paid at the closing of the transaction. As of June 30, 2023, the total consideration had been paid in full.

The Company engaged an independent valuation expert that uses appropriate valuation techniques, generally based on a forecast of the present value of expected future net cash flows, to determine the intangible assets appropriate fair value. The Company recognized an intangible asset for the cannabis license acquired at a fair value of \$11,916. The residual purchase price of \$8,767 was recognized as goodwill. During the second quarter of 2022, the Company recorded a prospective adjustment that resulted in an increase of \$857 to goodwill related to a decrease of \$476 to cash and cash equivalents, a decrease of \$248 to inventory and a decrease of \$133 to other current assets. During the fourth quarter of 2022, the Company recognized a decrease of \$1,365 to the intangible license value offset by a corresponding \$1,365 increase to goodwill.

The Company's Unaudited Interim Condensed Consolidated Statements of Operations includes net revenues of \$4,127 and \$5,091 and net income of \$167 and \$59 related to the acquired operations of Greengate for the three and six months ended June 30, 2022, respectively.

The Company's Unaudited Interim Condensed Consolidated Statements of Operations includes net revenues of \$4,876 and \$9,395 and net income of \$770 and \$1,551 related to the acquired operations of Greengate for the three and six months ended June 30, 2023, respectively.

Pro forma net revenues and net (loss) for the consolidated company for the six months ended June 30, 2022 are \$428,709 and \$(9,574), respectively. Such unaudited pro forma information gives effect to the Greengate acquisition as if it had occurred on January 1, 2022. These unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of the results of operations that would have been achieved had the transaction been consummated as of that time nor does it purport to be indicative of future financial operation results.

WSCC, Inc.

On July 6, 2021, Verano entered into a merger agreement to acquire 100% of the equity interests of WSCC, Inc ("Sierra Well"). Sierra Well holds cannabis licenses that allow it to cultivate, produce and sell medical and recreational cannabis products in the state of Nevada, including sales through its retail dispensaries located in Carson City and Reno. The transaction closed on September 7, 2022.

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

6. TRANSACTIONS (Continued)

Total consideration included cash of \$6,085, of which \$5,773 was paid at closing, \$280 was paid upon settlement of purchase price adjustments and \$32 is to be paid upon delivery of a letter of transmittal from one former shareholder. The transaction also included equity consideration of 1,536,685 Subordinate Voting Shares valued at \$9,742 based on the fair value of the Subordinate Voting Shares as traded on the CSE on the date of the transaction, of which \$7,663 or 1,208,745 Subordinate Voting Shares were issued at the closing of the transaction, \$66 or 10,440 Subordinate Voting Shares will be issued upon the delivery of a letter of transmittal from one former shareholder, and \$2,013 or 317,500 Subordinate Voting Shares were held back to secure indemnity claims, the balance of which will be paid 18 months subsequent to the closing of the transaction. The 10,440 Subordinate Voting Shares due to a former shareholder and 317,500 Subordinate Voting Shares held back to secure indemnity claims met equity classification at closing in accordance with ASC 815. As of June 30, 2023, the present value of unpaid deferred consideration of \$32 is included in the Acquisition Consideration Payable balance on the Company's Condensed Consolidated Balance Sheet.

The Company engaged an independent valuation expert that uses appropriate valuation techniques, generally based on a forecast of the present value of expected future net cash flows, to determine the intangible assets appropriate fair value. The Company recognized an intangible asset for the cannabis licenses acquired at a fair value of \$7,604. The residual purchase price of \$2,514 was recognized as goodwill. The Company also recognized an additional \$1,596 to goodwill related to the deferred tax liability associated with the acquired cannabis licenses. During the fourth quarter of 2022, the Company recognized a decrease of \$181 to goodwill related to an increase of \$99 to accrued liabilities and finalizing the purchase price adjustment in which the Company did not have to pay the \$280 cash held back at closing. The Company also recognized a decrease of \$660 to the intangible license value offset by a decrease of \$139 to deferred taxes and an increase of \$521 to goodwill. The Company recognized a \$5,739 long-term indemnified asset measured using the same assumptions used to identify a \$5,739 uncertain tax position, which is fully indemnifiable as outlined in the merger agreement. The long-term indemnified asset was increased by \$3,324 in the fourth quarter of 2022. As of June 30, 2023, the Company recorded a measurement period adjustment which led to an increase of \$194 to goodwill.

The Company's Unaudited Interim Condensed Consolidated Statements of Operations includes net revenues of \$3,654 and \$7,128 and net income of \$39 and \$86 related to the acquired operations of Sierra Well for the three and six months ended June 30, 2023, respectively.

Six Months Ended June 30, 2022 Dispositions

Canna Cuzzos, LLC

Canna Cuzzos, LLC ("Canna Cuzzos") is a medical marijuana licensee for a retail dispensary in Waldorf, Maryland. In 2017, a subsidiary of the Company entered into a management services agreement ("MSA") with Canna Cuzzos and provided operating and other services for Canna Cuzzos' dispensary. In 2018, Verano Holdings LLC acquired options to purchase all the ownership interests of a Maryland limited liability company (the "LLC"), which held a 40% ownership interest in the sole owner of Canna Cuzzos, resulting in such options being exercisable for an indirect 40% ownership interest in Canna Cuzzos. On January 31, 2022, all of the ownership interests of the sole owner of Canna Cuzzos were sold to a third party for a cash purchase price of \$5,000, subject to adjustment based on working capital levels and outstanding liabilities. Upon consummation of the sale, the MSA with Canna Cuzzos was terminated. Prior to the sale being consummated, Verano Holdings LLC consented to the sale, amended the options to receive an assignment of the LLC's sale proceeds thereunder and agreed to provide the LLC administrative services in connection with the sale transaction. Prior to the sale of its parent company, Canna Cuzzos was consolidated with the Company through the Variable Interest Model ("VIE") in accordance with ASC 810. The assignment of the LLC's sale proceeds resulted in a gain to the Company of \$1,701 for the six months ended June 30, 2022 and is classified as a component of Other Income (Expense), net in the Unaudited Interim Condensed Consolidated Statement of Operations.

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

6. TRANSACTIONS *(Continued)*

ILDISP, LLC

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

On March 1, 2022, the Company sold its 50% ownership interest in ILDISP to the joint venture partner for \$22,393 subject to certain adjustments. The sale resulted in gains of \$7,857 and \$14,099 for Charleston and TCE, respectively. During the second quarter of 2022, the Company paid \$244 in cash as a result of a downward purchase price adjustment and decreased the initial gain recognized by \$73 and \$171 for Charleston and TCE, respectively. During the third quarter of 2022, the Company received \$250 of cash due to the release of the cash indemnity hold back and increased the gain recognized by \$75 and \$175 for Charleston and TCE, respectively.

Other Acquisition Consideration Payable Adjustments

During the six months ended June 30, 2023, the Company recorded (i) a \$106 reclassification of the remaining acquisition consideration payable balance relating to the 2020 acquisition of MME IL Holdings, LLC, to record a potential liability that was deemed to be both probable and estimable, and as of June 30, 2023, the outstanding consideration has been in full; (ii) a \$500 cash payment reducing the acquisition consideration payable balance for the 2020 acquisition of Elevele, LLC, and as of June 30, 2023, the outstanding consideration has been in full; and (iii) a \$3,466 decrease in contingent consideration related to the 2021 acquisition of NSE Holdings, LLC, which is included as a gain in the other income, net line of the Unaudited Interim Condensed Consolidated Statement of Operations, and as of June 30, 2023, the outstanding consideration value was estimated to be zero.

7. DEBT

As of June 30, 2023, and December 31, 2022 debt consisted of the following:

	June 30, 2023	December 31, 2022
Credit Facility	\$ 350,000	\$ 350,000
Secured Promissory Notes	8,129	36,805
Mortgage Loans	79,575	44,985
Vehicle and Equipment Loans	1,201	1,824
Unamortized Debt Issuance Costs	(18,527)	(20,610)
Total Debt	\$ 420,378	\$ 413,004
Less: Current Portion of Debt	21,425	24,464
Total Long-Term Debt, net	\$ 398,953	\$ 388,540

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

7. DEBT (Continued)

Credit Facility

On October 27, 2022, Verano and certain of its subsidiaries and affiliates from time-to-time party thereto (collectively, the “Borrowers”), entered into a Credit Agreement (the “2022 Credit Agreement”) with Chicago Atlantic Admin, LLC (“CAA”), as administrative agent for the lenders, and the lenders from time-to-time party thereto, pursuant to which the lenders advanced the Borrowers a \$350,000 senior secured term loan, all of which was used to repay the principal indebtedness outstanding under the Company's previous senior secured term loan credit facility. In connection with such repayment, such previous credit facility was terminated and is no longer in force or effect.

The 2022 Credit Agreement provides the Borrowers with the right, subject to conditions, to request an additional incremental term loan in the aggregate principal amount of up to \$100,000; provided that the lenders elect to fund such incremental term loan. The loan requires scheduled amortization payments of \$350 per month and the remaining principal balance is due in full on October 30, 2026.

The 2022 Credit Agreement also provides the Borrowers with the right to (a) incur up to \$120,000 of additional indebtedness from third-party lenders secured by real estate excluded as collateral under the 2022 Credit Agreement, (b) incur additional mortgage financing from third-party lenders secured by real estate acquired after the closing date, and (c) upon the SAFE Banking Act or similar legislation making banking services available to U.S. cannabis companies being passed by the United States Congress, incur up to \$50,000 pursuant to a revolving credit facility from third-party lenders that is *pari passu* or subordinated to the 2022 Credit Agreement obligations, each of which are subject to customary conditions.

The obligations under the 2022 Credit Agreement are secured by substantially all of the assets of the Borrowers, excluding vehicles, specified parcels of real estate and other customary exclusions.

The 2022 Credit Agreement provides for a floating annual interest rate equal to the prime rate then in effect plus 6.50%, which rate may be increased by 3.00% upon an event of default or 6.00% upon a material event of default as provided in the 2022 Credit Agreement.

At any time, the Company may voluntarily prepay up to \$100,000 of the principal balance, subject to a \$1,000 prepayment premium, and may make an additional prepayment of all outstanding principal balance for a prepayment premium at varying rates based on the timing of such prepayment. The Borrowers may not voluntarily prepay more than \$100,000 of the principal balance without prepaying the entire outstanding principal balance of the loan.

The 2022 Credit Agreement includes customary representations and warranties and customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to material indebtedness, and events of bankruptcy and insolvency.

The 2022 Credit Agreement also includes customary negative covenants limiting the Borrowers' ability to incur additional indebtedness and grant liens that are otherwise not permitted, and the ability to enter into or consummate acquisitions or dispositions that are not otherwise permitted, among others. Additionally, the 2022 Credit Agreement requires the Borrowers to meet certain financial tests regarding minimum cash balances, minimum levels of Adjusted EBITDA (as defined in the 2022 Credit Agreement) and a minimum fixed charge coverage ratio.

As of June 30, 2023, the Company was in compliance with such covenants.

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

7. DEBT (Continued)

George Archos, the Chairman, Chief Executive Officer and Founder of the Company, participated in the 2022 Credit Agreement as a lender funding \$1,000 of the \$350,000 principal amount. Mr. Archos is excluded from certain approval rights of the lenders and any penalty and fees are immaterial.

Mortgages

On June 29, 2022, the Company entered into a real estate loan with a community bank to borrow a principal amount of \$18,000 secured by real estate and improvements thereon in Branchburg, New Jersey. The mortgage bears an interest rate of 4% and matures in July 2047.

On March 9, 2023, the Company entered into a real estate loan with a community bank to borrow a principal amount of \$20,000 secured by real estate and improvements thereon in Rocky Hill, Connecticut. The loan bears an interest rate of 5.75% and matures in March 2028, and may be extended for four additional five-year periods.

Vehicle and Equipment Loans

The Company has two equipment loans with Constellation NewEnergy, Inc. that are paid in monthly installments and mature in May 2025.

The Company has purchase money loans with Ford Motor Credit and Toyota Commercial Financing that mature through 2026 and interest rates ranging from 5.5% to 10% per annum and are secured by the acquired vehicles.

Other

In October 2022, the Company entered into a term loan with Chicago Atlantic Credit Opportunities, LLC for \$19,000 due in aggregate on October 31, 2024. The term loan paid interest and fees at a rate of 14.3%. The Company deferred \$100 of financing fees related to the closing of the transaction. This loan has been paid in full and is no longer outstanding as of June 30, 2023.

During the fourth quarter of 2022, the Company agreed to enter into a debt note, payable to the initial \$12,500 of contingent consideration, in connection with the Agronomed acquisition, over equal installments in 2023 and as such the amount due was reclassified from Acquisition Consideration Payable to Current Portion of Debt balance on the Company's Condensed Consolidated Balance Sheets as of June 30, 2023 and December 31, 2022.

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

8. SHARE CAPITAL

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

(a) Issued and Outstanding

As of June 30, 2023, the Company had 343,367,514 Subordinate Voting Shares issued and outstanding and no Proportionate Voting Shares outstanding. The Company has the following two classes of share capital, with each class having no par value:

(i) Subordinate Voting Shares

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

(ii) Proportionate Voting Shares

Each Proportionate Voting Share is convertible into 100 Subordinate Voting Shares. The holders of the Proportionate Voting Share are entitled to receive dividends issued by the Company on an as converted to Subordinate Voting Share basis and 100 votes per share at shareholder meetings of the Company. The Proportionate Voting Shares are ranked equally on an as converted to Subordinate Voting Share basis regarding the Company's residual assets. The Company is authorized to issue an unlimited number of Proportionate Voting Shares.

During the six months ended June 30, 2023, the shareholders of the Company converted Proportionate Voting Shares to Subordinate Voting Shares for an impact of conversion of 449 Proportionate Voting Shares into 44,997 Subordinate Voting Shares. Additionally, during the six months ended June 30, 2023, the Company automatically converted each of the 133,373 remaining outstanding shares of Proportionate Voting Shares into 13,337,286 Subordinate Voting Shares.

(b) Stock-Based Compensation

In February 2021, the Company established the Verano Holdings Corp. Stock and Incentive Plan (the "Plan"), which provides for stock-based remuneration for its eligible directors, officers, employees, consultants, and advisors. The maximum number of restricted stock units ("RSUs"), options and other stock based awards that may be issued under the Plan cannot exceed 10% of the Company's then issued and outstanding share capital, determined on an as converted to Subordinate Voting Shares basis. All goods and services received in exchange for the grant of any stock-based payments are measured at their fair value unless the fair value cannot be estimated reliably. If the Company cannot reliably estimate the fair value of the goods and services received, the Company measures their value indirectly by reference to the fair value of the equity instruments granted. The Company measures the fair value of the services by reference to the fair value of the equity instruments granted. Equity-settled stock-based payments under stock-based payment plans are ultimately recognized as an expense in profit or loss with a corresponding credit to equity.

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

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

8. SHARE CAPITAL *(Continued)*

Option and RSU grants generally vest in installments over 12 to 30 months and options typically have a life of ten years.

Options

Option activity is summarized as follows:

	Number of Shares	Weighted Avg. Exercise Price C\$	Weighted Average Remaining Contractual Life
Unvested Options Balance as of December 31, 2022	19,997	30.13	8.13
Granted	—	—	—
Forfeited	—	—	—
Vested	9,992	30.13	—
Unvested Options Balance at June 30, 2023	10,005	30.13	7.62
Inception to date Vested and Exercisable at June 30, 2023	29,989	30.02	7.62

As of June 30, 2023 and December 31, 2022, there were no in-the-money options.

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted. No options were granted, expired, or forfeited during the six months ended June 30, 2023.

Restricted Stock Units (“RSUs”)

The following table summarizes the number of unvested RSU awards as of June 30, 2023 and December 31, 2022 and the changes during the six months ended June 30, 2023:

	Number of Shares	Weighted Avg. Grant Date Fair Value C\$
Unvested RSUs at December 31, 2022	2,981,327	11.39
Granted	8,088,191	3.97
Forfeited	179,667	8.39
Vested	965,277	12.35
Unvested RSUs at June 30, 2023	9,924,574	5.30

The stock-based compensation expense for the three and six months ended June 30, 2023 and 2022 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Stock Options	\$ 87	\$ 62	\$ 163	\$ 125
Restricted Stock Units	3,661	13,430	4,129	24,280
Total Stock Based Compensation Expense	\$ 3,748	\$ 13,492	\$ 4,292	\$ 24,405

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

9. INCOME TAXES

The following table summarizes the Company's income tax expense and effective tax rates for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Income before Income Taxes	\$ 14,618	\$ 1,256	\$ 33,701	\$ 26,847
Income Tax Expense	(27,679)	(11,103)	(55,999)	(36,617)
Effective Tax Rate	189 %	663 %	166 %	112 %

The effective tax rates for the three and six months ended June 30, 2023 and 2022 were based on the Company's forecasted annualized effective tax rates and were adjusted for discrete items that occurred within the periods presented. Net discrete tax items of \$7,340 were recorded during the three months ended June 30, 2023, increasing the year to date discrete tax items to \$12,187, as of June 30, 2023. Discrete items recorded during the three months ended June 30, 2023 primarily relate to penalties and interest on unpaid tax liabilities, the permanent impacts of stock compensation, and book remeasurement adjustments not recognized for tax purposes.

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

During the second quarter of 2023, Connecticut, Illinois, and New Jersey enacted tax legislation to decouple from Section 280E of the Code, all of which are effective January 1, 2023. The Company has significant operations in these states and is now permitted to deduct ordinary and necessary cannabis business expenses in these states. As such, the effective tax rate for the three and six months ended June 30, 2023 reflects a state income tax benefit from this change, which is not reflected in the effective tax rate for the three and six months ended June 30, 2022.

Taxes paid during the three months ended June 30, 2023 and 2022 were \$51,706 and \$37,323, respectively.

10. LEASES

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

Leases with an initial term of 12 months or less are not recorded on the balance sheet. Certain leases require payments for taxes, insurance, and maintenance, and are considered non-lease components. The Company accounts for non-lease components separately.

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

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

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

10. LEASES (Continued)

During the three months ended June 30, 2023 and 2022, the Company recorded approximately \$4,447 and \$3,734 in operating lease expense, respectively, of which \$165 and \$173 was included in cost of goods sold for the same periods, respectively. During the six months ended June 30, 2023 and 2022, the Company recorded approximately \$8,760 and \$7,120 in operating lease expense, respectively, of which \$371 and \$320 was included in cost of goods sold for the same periods, respectively.

Other information related to operating leases as of and for the periods ended June 30, 2023 and December 31, 2022, were as follows:

	June 30, 2023	December 31, 2022
Weighted average remaining lease term - years	8.09	8.12
Weighted average discount rate	8.53 %	8.02 %

Maturities of lease liabilities for operating leases as of June 30, 2023 were as follows:

Year Ending December 31,	Maturities of Lease Liability	
Remainder 2023	\$	8,238
2024		16,319
2025		15,429
2026		14,506
2027		13,777
2028 and Thereafter		56,221
Total Lease Payments		124,490
Less: Imputed Interest		(36,192)
Present Value of Lease Liability	\$	88,298

11. CONTINGENCIES AND OTHER

(a) Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of June 30, 2023, other than as set forth below, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's consolidated operations. There are also no proceedings in which the Company is a party and any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

11. CONTINGENCIES AND OTHER *(Continued)*

On January 31, 2022, we entered into an Arrangement Agreement (the "GGH Arrangement Agreement") with Goodness Growth Holdings, Inc. ("GGH"), pursuant to which we agreed to acquire all of the issued and outstanding equity interests of GGH in exchange for equity interests in the Company, subject to the conditions set forth in the GGH Arrangement Agreement. On October 13, 2022, the Company provided written notice to GGH of GGH's breach of the GGH Arrangement Agreement and exercised the Company's termination rights under the GGH Arrangement Agreement. On October 21, 2022, GGH filed suit against us in the Supreme Court of British Columbia alleging that the Company breached (i) the GGH Arrangement Agreement through, among other things, the purported wrongful repudiation of the GGH Arrangement Agreement, (ii) the duty of good faith, and (iii) the duty of honest performance in contract. In addition, we filed a countersuit asserting that GGH owes us a termination fee in the amount of \$14,875, or alternatively, the reimbursement of out-of-pocket fees and expenses of up to \$3,000 because of our rightful termination of the GGH Arrangement Agreement, which was based upon our belief that GGH breached covenants and representations in the GGH Arrangement Agreement and the occurrence of other termination events. GGH filed a response to such counterclaim on December 8, 2022, in which GGH denied it was obligated to pay any termination fee or transaction expenses. As of June 30, 2023, there have been no material developments with respect to the legal proceedings with GGH previously disclosed in Item 3 of the Form 10-K. We can provide no guarantees or assurances that we will be able to win or settle this lawsuit or our counterclaim on favorable terms, if at all, and an adverse outcome could have a material adverse effect on our business, results of operations and financial condition.

(b) Contingencies

During the first quarter of 2023, the Company discovered a potential liability related to a previous acquisition that was deemed to be both probable and estimable. Per ASC 450 *Contingencies*, when both of these criteria are present, a contingent liability should be recorded. Based on this, the Company recorded a contingent liability and a corresponding charge in other income, net of \$1,893 for the six months ended June 30, 2023.

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

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

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

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

11. CONTINGENCIES AND OTHER *(Continued)*

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

12. SEGMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<i>Revenue, net of discounts</i>				
Cultivation (Wholesale)	\$ 86,610	\$ 67,673	\$ 166,877	\$ 120,681
Retail	186,358	185,308	370,600	349,642
Intersegment Eliminations	(38,853)	(29,319)	(76,302)	(44,426)
Total Revenue, net of discounts	\$ 234,115	\$ 223,662	\$ 461,175	\$ 425,897
<i>Depreciation and Amortization</i>				
Cultivation (Wholesale)	\$ 18,529	\$ 19,089	\$ 37,050	\$ 38,814
Retail	16,708	16,388	33,243	31,097
Total Depreciation and Amortization	\$ 35,237	\$ 35,477	\$ 70,293	\$ 69,911
<i>Income taxes</i>				
Cultivation (Wholesale)	\$ 8,754	\$ 1,265	\$ 19,011	\$ 12,502
Retail	18,925	9,838	36,988	24,115
Total Income Taxes	\$ 27,679	\$ 11,103	\$ 55,999	\$ 36,617

The Company's assets are aggregated into two reportable segments (cultivation (wholesale) and retail). For the purposes of testing goodwill, the Company has identified 13 reporting units. The Company determined its reporting units by first reviewing the operating segments based on the geographic areas in which the Company conducts business (or each market). The markets were then further divided into reporting units based on the market operations (cultivation (wholesale) and retail) which were primarily determined based on the licenses each market holds. Substantially all revenues are derived from customers domiciled in the United States and substantially all assets are located in the United States.

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

13. LOYALTY OBLIGATIONS

The Company has customer loyalty programs where retail customers accumulate points for each dollar of spending, net of tax. These points are recorded as a contractual liability until customers redeem their points for discounts on eligible products as part of an in-store sales transaction. In addition, the Company records a performance obligation as a reduction of revenue based on the estimated probability of point obligation incurred.

The Company modified the loyalty program in 2022. The new loyalty program has a calculated standalone selling price that ranges between \$0.03¹ and \$0.06¹ per loyalty point. Upon redemption, the loyalty program obligation is relieved, and the offset is recorded as revenue. The Company estimates that 25% of points will not be redeemed (breakage) prior to their six-month expiration dates. The Company continues to evaluate breakage and redemption values to determine the standalone selling price.

As of December 31, 2022, there were approximately 70,000,000¹ points outstanding with an approximate value of \$3,582. As of June 30, 2023, there were approximately 82,000,000¹ points outstanding with an approximate value of \$4,203. Such balances are included in accrued liabilities on the Company's Condensed Consolidated Balance Sheets.

¹ Such amount not in Thousands

14. CONSOLIDATION

In accordance with ASC 810, the Company consolidates through the VIE model. The following table presents the summarized financial information about the Company's consolidated VIEs, which are included in the consolidated balance sheets as of June 30, 2023 and December 31, 2022.

	June 30, 2023	December 31, 2022
Current Assets	\$ 111,042	\$ 48,952
Due To/(From)	—	—
Non-Current Assets	81,823	72,081
Current Liabilities	17,277	10,193
Non-Current Liabilities	10,103	8,939
Non-Controlling Interest	—	—
Equity attributable to Verano Holdings, Corp.	165,485	101,901

Consolidated Variable Interest Entities

Consolidated VIEs occur when the Company closes an acquisition while the state has not finalized the transfer of the cannabis license.

Consolidation occurs on the effective date of the purchase agreement and a MSA. The MSA grants the management company, Verano, the ability to make business operating decisions, manage and staff employees, determine product mix, and the authority to direct allocation of cash. The MSA also allows Verano to limit distributions of the entity at Verano's discretion. Certain states may limit the distribution or transfer of cash until license transfer.

The Company has entered into financing arrangements with certain VIEs to provide funding for potential capital expenditures including, but not limited to, the construction of dispensaries and other facilities.

Verano applies ASC 810-10-15 to determine control of the legal entity. The purchase agreements limit the sellers involvement in future operations, and their risks of loss. In addition, Verano enters into an MSA with the legal entity that grants the Company strategic decision-making ability of the business operations.

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

14. CONSOLIDATION *(Continued)*

The Company is involved in all qualitative and quantitative aspects of the entity, such as but not limited to, software choices, procurement, staffing and payroll, advertising, and use of cash flow. The Company absorbs all risk of loss and receives expected future returns based on the purchase agreement and MSA, resulting in Verano being the primary beneficiary.

15. FAIR VALUE MEASUREMENTS

The Company applies fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded at fair value, the Company considers all related factors of the asset by market participants in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit-risk.

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels, and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

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

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, debt, and acquisition consideration payable.

For the Company's long-term debt (which consists of a credit facility and mortgage loans), for which there were no quoted market prices of active trading markets, it was not practicable to estimate the fair value of these financial instruments. The carrying amount of debt as of June 30, 2023 and December 31, 2022 was \$420,378 and \$413,004, respectively, which included \$21,425 and \$24,464, respectively, of short-term debt due within one year.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The fair value of the Company's financial instruments associated with each of the three levels of the hierarchy are:

	As of June 30, 2023			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 102,579	\$ —	\$ —	\$ 102,579
Investments	1,547	—	—	1,547
Acquisition Consideration Payable	—	—	(2,032)	(2,032)
Total	\$ 104,126	\$ —	\$ (2,032)	\$ 102,094

VERANO HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

15. FAIR VALUE MEASUREMENTS *(Continued)*

	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 84,851	\$ —	\$ —	\$ 84,851
Investments	1,805	—	—	1,805
Acquisition Consideration Payable	—	—	(18,262)	(18,262)
Total	<u>\$ 86,656</u>	<u>\$ —</u>	<u>\$ (18,262)</u>	<u>\$ 68,394</u>

As of June 30, 2023, the Company held publicly traded shares of \$1,547, which is included in other assets in the accompanying Condensed Consolidated Balance Sheet, and is a Level 1 financial instrument.

16. SUBSEQUENT EVENTS

Resignation of R. Michael Smullen

On July 19, 2023, R. Michael Smullen, a member of the Company's board of directors (the "Board"), informed the Company of his intention to resign from the Board and on July 19, 2023 the Board accepted Mr. Smullen's resignation. Mr. Smullen's resignation was not the result of any disagreement between Mr. Smullen and the Company, its management, the Board or any committee of the Board, or with respect to any matter relating to the Company's operations, policies and practices, and such resignation is solely related to his desire to retire.

Appointment of John Tipton and Charles Mueller

On July 19, 2023, the Board approved an increase of the Board size from four to five members, and to fill the two vacancies the Board appointed John Allen Tipton, the Company's President of the Southern Region, and Charles Frederick Mueller to serve as members of the Board, effective immediately. Additionally, the Board appointed Mr. Mueller as a member of the Audit Committee of the Board, effective immediately.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management discussion and analysis (this "MD&A") of the financial condition and results of operations of Verano is for the three and six months ended June 30, 2023 and June 30, 2022. It is supplemental to, and should be read in conjunction with, the Company's unaudited interim condensed consolidated financial statements and the accompanying notes for the three and six months ended June 30, 2023 and with the Company's Audited Consolidated Financial Statements and the accompanying notes for the years ended December 31, 2022, 2021 and 2020 included in the Form 10-K. The financial statements referenced in this MD&A are prepared in accordance with GAAP. Financial information presented in this MD&A is presented in United States dollars ("\$" or "US\$") and expressed in thousands, unless otherwise indicated. This MD&A contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those projected, forecasted, or expected in these forward-looking statements as a result of various factors, including, but not limited to, those discussed in the Form 10-K. See "Cautionary Statement Regarding Forward-Looking Statements" above and "Risk Factors" in the Form 10-K. The Company's management believes the assumptions underlying the Company's financial statements and accompanying notes are reasonable. However, the Company's financial statements and accompanying notes may not be an indication of the Company's financial condition and results of operations in the future.

OVERVIEW OF THE COMPANY

Verano, one of the U.S. cannabis industry's leading companies based on historical revenue, geographic scope and brand performance, is a vertically integrated, multi-state operator embracing a mission of saying *Yes* to plant progress and the bold exploration of cannabis. Verano offers a superior cannabis shopping experience in medical and adult use markets under the Zen Leaf™ and MÜV™ dispensary banners and produces a comprehensive suite of high-quality, regulated cannabis products sold under its diverse portfolio of trusted consumer brands including Verano™, MÜV™, Savvy™, BITS™, Encore™, and Avexia™. As of August 4, 2023, through our subsidiaries and affiliates, we actively operate businesses in 13 states, including 132 retail dispensaries, and 14 cultivation and processing facilities with over 1,000,000 square feet of cultivation capacity.

Notwithstanding the permissive regulatory environment of medical, and in some cases, also adult use (i.e., recreational) cannabis, at the state level, it remains illegal under U.S. federal law to cultivate, manufacture, distribute, sell or possess cannabis in the U.S. Because federal law prohibits transporting any federally restricted substance across state lines, cannabis cannot be transported across state lines. As a result of current federal law prohibitions, the U.S. cannabis industry is conducted on a state-by-state basis. To date, in the U.S. 38 states plus the District of Columbia and the U.S. territories of Puerto Rico, Guam and the U.S. Virgin Islands have authorized comprehensive medical cannabis programs, 23 states plus the District of Columbia and the U.S. territories of Guam and the Commonwealth of Northern Mariana Islands have authorized comprehensive programs for medical and adult use cannabis, and 10 states allow the use of low THC and high CBD products for specified medical uses. Verano operates within states where cannabis use, medical or both medical and adult use, has been approved by state and local regulatory bodies. Strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.

Our strategy is to vertically integrate as a single cohesive company in multiple states through the consolidation of seed-to-sale cultivating, manufacturing, distributing, and dispensing cannabis brands and products at scale. Our cultivation, processing and wholesale distribution of cannabis consumer packaged goods are designed to guarantee shelf-space in our national retail dispensary chains, as well as to develop and foster long term wholesale supply relationships with third-party retail operators. Our model includes geographic diversity by establishing a footprint to allow us to adapt to changes in both industry and market conditions.

SELECTED RESULTS OF OPERATIONS

The following presents selected financial data derived from the (i) Unaudited Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2023 and 2022 and (ii) Condensed Consolidated Balance Sheets as of June 30, 2023 and December 31, 2022, which have been derived from, and should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and accompanying notes presented in Item 1 of this Form 10-Q. The selected unaudited interim condensed consolidated financial information below may not be indicative of the Company's future performance.

Three Months Ended June 30, 2023, as Compared to Three Months Ended June 30, 2022

(\$ in thousands)	Three Months Ended June 30,		
	2023	2022	\$ Change
Revenues, net of discounts	\$ 234,115	\$ 223,662	\$ 10,453
Gross Profit	115,191	98,115	17,076
Net Loss attributable to Verano Holdings Corp. & Subsidiaries	(13,061)	(9,847)	(3,214)
Net Loss per share – basic & diluted	(0.04)	(0.03)	(0.01)

Revenues, net of discounts

Revenues, net of discounts for the three months ended June 30, 2023 was \$234,115, an increase of \$10,453 or 4.7%, compared to revenue of \$223,662 for the three months ended June 30, 2022. Key performance drivers for retail revenue for the quarter were continued market expansion into New Jersey, which began permitting adult use sales in the second quarter of 2022, and increased revenue from the Connecticut market which began adult use sales in January of 2023. Through previous acquisition activity, overall sales in Nevada contributed to the year over year revenue increase. During the three months ended June 30, 2023, the Company opened five new stores in Florida and Pennsylvania. Additionally, consistent with other operators, we saw continued plateauing and pricing pressure in certain markets due to increased competition in select markets, specifically in Arizona, Illinois and Pennsylvania, when comparing the three months ended June 30, 2022 to the three months ended June 30, 2023. Retail revenue for the three months ended June 30, 2023 was approximately 68.3% of total revenue compared to 73.2% of total revenue for the three months ended June 30, 2022. Key performance drivers for cultivation (wholesale) revenues were continued cultivation expansion into the New Jersey and Connecticut adult use markets along with higher Verano branded product sell through in Arizona, all of which attributed to increased production output and sales of cannabis flower and cannabis related products, including intercompany sales, when comparing the three months ended June 30, 2022 to the three months ended June 30, 2023. Cultivation (wholesale) revenue for the three months ended June 30, 2023 was 31.7% of total revenue compared to 26.8% of total revenue for the three months ended June 30, 2022, excluding intersegment eliminations.

Gross Profit

Gross profit for the three months ended June 30, 2023 was \$115,191, representing a gross margin on the sale of cannabis, cannabis extractions, edibles and related accessories of 49.2%. This is compared to gross profit for the three months ended June 30, 2022 of \$98,115, which represented a 43.9% gross margin on the sale of cannabis, cannabis extractions, edibles and related accessories. The increase in gross profit during the three months ended June 30, 2023 was primarily attributable to improved sell through of Verano products, coupled with lower cultivation costs. Additionally, lower comparative impact related to inventory step-ups from acquisitions, which was partially offset by pricing pressure, contributed to a higher gross profit margin as compared to the three months ended June 30, 2022.

Net Loss

Net Loss attributable to the Company for the three months ended June 30, 2023 was \$(13,061), an increase of \$3,214, compared to a net loss of \$(9,847) for the three months ended June 30, 2022. The change in net loss was largely driven by an increase in interest expense related to our 2022 Credit Agreement and an increase to the provision for income taxes for the three months ended June 30, 2023 compared to the three months ended June 30, 2022.

(\$ in thousands)	Three Months Ended June 30,		
	2023	2022	\$ Change
Cost of Goods Sold, net	\$ 118,924	\$ 125,547	\$ (6,623)
Selling, General, and Administrative Expenses	84,660	100,263	(15,603)
Other Income (Expense), net	(15,812)	3,548	(19,360)
Provision for Income Taxes	(27,679)	(11,103)	(16,576)

Cost of Goods Sold, net

Cost of goods sold includes the costs directly attributable to cultivating and processing cannabis and for retail purchases of finished goods, such as flower, edibles, and concentrates. Cost of goods sold for the three months ended June 30, 2023 was \$118,924, a decrease of \$6,623 or 5.3%, from the three months ended June 30, 2022. The change was primarily driven by lower cultivation cost optimization in across select markets coupled with product decreases associated with costs in purchased finished goods.

Selling, General, and Administrative Expenses

Total selling, general and administrative expenses for the three months ended June 30, 2023 were \$84,660, a decrease of \$15,603 or 15.6%, compared to total selling, general and administrative expenses of \$100,263 for the three months ended June 30, 2022. Total selling, general and administrative expenses as a percentage of revenue was 36.2% and 44.8% for the three months ended June 30, 2023, and 2022, respectively. The change was primarily due to a \$6,727 decrease in salaries and benefits and a \$7,868 decrease in general and administrative expenses driven largely by acquisition activity during the three months ended June 30, 2022 and lower stock based compensation expense compared to the three months ended June 30, 2022. Lower stock based compensation expense was driven by a prior period expense acceleration benefit during the three months ended June 30, 2022 and timing of award grants during the three months ended June 30, 2023.

Other Income (Expense), net

Total other income (expense), net for the three months ended June 30, 2023, was \$(15,812), a decrease of \$19,360 as compared to the three months ended June 30, 2022. The change in other income (expense), net was primarily due to an increase of interest expense as a result of the 2022 Credit Agreement coupled with lower acquisition earn out activity which attributed to the overall period over period decrease in other income (expense), net, for the three months ended June 30, 2023 when compared to the same period for June 30, 2022.

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. Income tax expense for the three months ended June 30, 2023, was \$27,679, an increase of \$16,576 or 149.3% as compared to the three months ended June 30, 2022.

Six Months Ended June 30, 2023, as Compared to Six Months Ended June 30, 2022

(\$ in thousands)	Six Months Ended June 30,		
	2023	2022	\$ Change
Revenues, net of discounts	\$ 461,175	\$ 425,897	\$ 35,278
Gross Profit	224,376	196,732	27,644
Net Loss attributable to Verano Holdings Corp. & Subsidiaries	(22,298)	(10,061)	(12,237)
Net Loss per share – basic & diluted	(0.07)	(0.03)	(0.04)

Revenues, net of discounts

Revenues, net of discounts for the six months ended June 30, 2023 was \$461,175, an increase of \$35,278 or 8.3%, compared to revenue of \$425,897 for the six months ended June 30, 2022. Key performance drivers for retail revenue for the six months ended June 30, 2023 were continued market expansion into New Jersey, which began permitting adult use sales in the second quarter of 2022, and increased revenue from the Connecticut market which began adult use sales in January of 2023. Additionally, through acquisition activity, overall sales in Nevada contributed to the year over year revenue increase. During the six months ended June 30, 2023, the Company opened eleven new stores in Florida, Pennsylvania, and West Virginia. Additionally, consistent with other operators, we saw continued plateauing and pricing pressure in certain markets due to increased competition in select markets, specifically in Arizona, Illinois and Pennsylvania, when comparing the six months ended June 30, 2022 to the six months ended June 30, 2023. Retail revenue for the six months ended June 30, 2023 was approximately 69.0% of total revenue compared to 74.3% of total revenue for the six months ended June 30, 2022, excluding intersegment eliminations. Key performance drivers for cultivation (wholesale) revenues were continued cultivation expansion into the New Jersey and Connecticut adult use markets along with higher Verano product sell through in Arizona, all of which attributed to increased production output and sales of cannabis flower and cannabis related products, including intercompany sales, when comparing the six months ended June 30, 2022 to the six months ended June 30, 2023. Cultivation (wholesale) revenue for the six months ended June 30, 2023 was 31.0% of total revenue compared to 25.7% of total revenue for the six months ended June 30, 2022, excluding intersegment eliminations.

Gross Profit

Gross profit for the six months ended June 30, 2023 was \$224,376, representing a gross margin on the sale of cannabis, cannabis extractions, edibles and related accessories of 48.7%. This is compared to gross profit for the six months ended June 30, 2022 of \$196,732, which represented a 46.2% gross margin on the sale of cannabis, cannabis extractions, edibles and related accessories. The increase in gross profit during the six months ended June 30, 2023 was primarily attributable to improved sell through of Verano products, coupled with lower cultivation costs. Additionally, lower comparative impact related to inventory step-ups from acquisitions, which was partially offset by pricing pressure, contributed to a higher gross profit margin as compared to the six months ended June 30, 2022.

Net Loss

Net loss attributable to the Company for the six months ended June 30, 2023 was \$(22,298), an increase of \$12,237, compared to a net loss of \$(10,061) for the six months ended June 30, 2022. The change in net income was largely driven by an overall increase in other expenses, attributable to an increase in interest expense related to our 2022 Credit Agreement for the six months ended June 30, 2023 when compared to June 30, 2022. Additionally, the variance was also driven by a gain on deconsolidation and a gain on previously held equity interests for the six months ended June 30, 2022.

(\$ in thousands)	Six Months Ended June 30,		
	2023	2022	\$ Change
Cost of Goods Sold, net	\$ 236,799	\$ 229,165	\$ 7,634
Selling, General, and Administrative Expenses	159,908	189,824	(29,916)
Other Income (Expense), net	(30,506)	18,079	(48,585)
Provision for Income Taxes	(55,999)	(36,617)	(19,382)

Cost of Goods Sold, net

Cost of goods sold includes the costs directly attributable to cultivating and processing cannabis and for retail purchases of finished goods, such as flower, edibles, and concentrates. Cost of goods sold for the six months ended June 30, 2023 was \$236,799, an increase of \$7,634 or 3.3%, from the six months ended June 30, 2022. The change was primarily driven by overall top-line revenue growth in Connecticut and New Jersey.

Selling, General, and Administrative Expenses

Total selling, general and administrative expenses for the six months ended June 30, 2023 were \$159,908, a decrease of \$29,916 or 15.8%, compared to total selling, general and administrative expenses of \$189,824 for the six months ended June 30, 2022. Total selling, general and administrative expenses as a percentage of revenue was 34.7% and 44.6% for the six months ended June 30, 2023, and 2022, respectively. The decrease was primarily due to a \$14,255 decrease in salaries and benefits and a \$15,856 decrease in general and administrative expenses driven largely by acquisition activity during the six months ended June 30, 2022. Additionally, selling, general and administrative expenses for the six months ended June 30, 2023 included lower stock based compensation expense compared to the six months ended June 30, 2022, driven by a prior period expense acceleration benefit during the six months ended June 30, 2022 and timing of award grants during the six months ended June 30, 2023.

Other Income (Expense), net

Total other income (expense), net for the six months ended June 30, 2023, was \$(30,506), a decrease of \$48,585 as compared to the six months ended June 30, 2022. The change in other income (expense), net was primarily driven by an increase of interest expense as a result of the 2022 Credit Agreement for the six months ended June 30, 2023 when compared to the six months ended June 30, 2022. Comparatively, during the six months ended June 30, 2022, other income (expense), net increased primarily due to a gain on deconsolidation of \$9,485, a gain on previously held equity interest of \$13,928, and acquisition earn out activity which attributed to the overall period over period decrease in other income (expense), net.

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. Income tax expense for the six months ended June 30, 2023, was \$55,999, an increase of \$19,382 or 52.9% as compared to the three months ended June 30, 2022.

Results of Operations by Segment

The Company has two reportable segments: (i) Cultivation (Wholesale) and (ii) Retail. Due to the vertically integrated nature of its business, the Company reviews its revenue at the cultivation (wholesale) and retail levels while reviewing its operating results on a consolidated basis.

The following tables summarize revenues net of sales discounts by segment for the three and six months ended June 30, 2023 and 2022:

(\$ in thousands)	Three Months Ended June 30,		
	2023	2022	% Change
Revenues, net of discounts			
Cultivation (Wholesale)	\$ 86,610	\$ 67,673	28.0 %
Retail	186,358	185,308	0.6 %
Intersegment Eliminations	(38,853)	(29,319)	32.5 %
Total Revenues, net of discounts	\$ 234,115	\$ 223,662	4.7 %

Revenues, net of discounts, for the cultivation (wholesale) segment were \$86,610 for the three months ended June 30, 2023, an increase of \$18,937 or 28.0%, compared to the three months ended June 30, 2022, in each case, excluding intersegment eliminations. The increase in cultivation (wholesale) revenues, net of discounts was primarily driven by cultivation expansion into the New Jersey and Connecticut adult use markets, along with higher Verano product sell through in Arizona, all of which attributed to increased production output and sales of cannabis flower and cannabis related products, including intercompany sales, which contributed to the increase in cultivation (wholesale) revenues, net of discounts.

Revenues, net of discounts, for the retail segment were \$186,358 for the three months ended June 30, 2023, an increase of \$1,050 or 0.6%, compared to the three months ended June 30, 2022, in each case, excluding intersegment eliminations. The increase in retail revenues, net of discounts was primarily driven by the Company's continued expansion into the New Jersey, Connecticut and Florida operational markets. Florida operations are treated exclusively as retail income due to the vertical nature of the Florida business. The increase was also driven by additional retail store openings in Florida and Pennsylvania. Additionally, through acquisition activity, overall sales in Nevada contributed to the year over year revenue increase.

(\$ in thousands)	Six Months Ended June 30,		
	2023	2022	% Change
Revenues, net of discounts			
Cultivation (Wholesale)	\$ 166,877	\$ 120,681	38.3 %
Retail	370,600	349,642	6.0 %
Intersegment Eliminations	(76,302)	(44,426)	71.8 %
Total Revenues, net of discounts	\$ 461,175	\$ 425,897	8.3 %

Revenues, net of discounts, for the cultivation (wholesale) segment were \$166,877 for the six months ended June 30, 2023, an increase of \$46,196 or 38.3%, compared to the six months ended June 30, 2022, in each case, excluding intersegment eliminations. The increase in cultivation (wholesale) revenues, net of discounts, was primarily driven by cultivation expansion into the New Jersey and Connecticut adult use markets, coupled with increased cultivation revenues in established markets. Additionally, higher Verano product sell through attributed to increased production output and sales of cannabis flower and cannabis related products, including intercompany sales, which contributed to the increase in cultivation (wholesale) revenues, net of discounts.

Revenues, net of discounts for the retail segment were \$370,600 for the six months ended June 30, 2023, an increase of \$20,958 or 6.0%, compared to the six months ended June 30, 2022, in each case, excluding intersegment eliminations. The increase in retail revenues, net of discounts, was primarily driven by the Company's continued expansion into the New Jersey, Connecticut and Florida operational markets. Florida operations are treated exclusively as retail income due to the vertical nature of the Florida business. The increase was also driven by additional retail store openings in Florida, Pennsylvania and West Virginia.

Drivers of Operational Performance

Revenue

The Company derives its revenue from both its cultivation (wholesale) business in which it cultivates, produces and sells cannabis products to third-party retail customers, and its retail business, in which it directly sells cannabis products to retail patients and consumers. For the three months ended June 30, 2023, approximately 31.7% of the Company's revenue was generated from the cultivation (wholesale) business, excluding intersegment eliminations, and approximately 68.3% from the retail business, excluding intersegment eliminations. For the six months ended June 30, 2023, approximately 31.0% of revenue was generated from the cultivation (wholesale) business and approximately 69.0% from the retail business, excluding intersegment eliminations.

Gross Profit

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

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

Total Expenses

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

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

Selling, general, and administrative ("SG&A") expenses also include costs incurred at the Company's corporate offices, primarily related to back-office personnel costs, including salaries, incentive compensation, benefits, stock-based compensation and other professional service costs. Going forward, SG&A expenses are expected to continue in line with the Company's expansion plans. Furthermore, the Company expects to continue to incur acquisition and transaction costs related to these expansion plans and anticipates an increase in stock compensation expenses related to recruiting and hiring talent, along with legal and professional fees associated with being a publicly traded company in Canada and a public-reporting company in the U.S.

Provision for Income Taxes

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

LIQUIDITY, FINANCING ACTIVITIES AND CAPITAL RESOURCES

As of June 30, 2023 and December 31, 2022, the Company had total current liabilities of \$348,319 and \$386,645, respectively. As of June 30, 2023 and December 31, 2022, the Company had cash and cash equivalents of \$102,579 and \$84,851, respectively, to meet its current obligations. The Company had a working capital deficit of \$(29,389) as of June 30, 2023, an increase of working capital of \$38,981 as compared to December 31, 2022. This increase in working capital was primarily driven by a \$25,681 decrease in income tax payable and a \$16,230 decrease in acquisition consideration payable.

The Company is an early-stage growth company, generating cash from revenues deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and long term. Capital reserves are primarily being utilized for capital expenditures, facility improvements, strategic investment opportunities, product development and marketing, as well as customer, supplier, and investor and industry relations. The Company takes a cautious approach in allocating its capital to maximize its returns while ensuring appropriate liquidity. Given current inflation and the uncertainty of the future economic environment, the Company has taken additional measures in monitoring and deploying its capital to minimize the negative impact on its operations and expansion plans.

While our revenue, gross profit and operating income were not materially impacted by COVID-19 and we maintained the consistency of our operations during the six months ended June 30, 2023, the uncertain nature of the spread of variants of COVID-19 may impact our business operations for reasons including government lock-downs and the potential quarantine of our employees or those of our supply chain partners. Our ability to continue to operate without any significant negative operational impact from COVID-19 will in part depend on our ability to protect our employees, customers and supply chain partners.

Liquidity Requirements

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

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

Credit Facility

In October 2022, Verano and certain of its subsidiaries and affiliates, as the Borrowers, entered into the 2022 Credit Agreement with the lenders party thereto, pursuant to which the lenders advanced the Borrowers a \$350,000 senior secured term loan, and which also provides the Borrowers with the right, subject to conditions, to request an additional incremental term loan of up to \$100,000; provided that the lenders elect to fund such incremental term loan. At funding, all of the proceeds of the loans made under the 2022 Credit Agreement were used to repay the amounts owing under the Company's previous senior secured term loan credit facility. In connection with such repayment, such previous credit facility was terminated and is no longer in force or effect.

The 2022 Credit Agreement allows the Borrowers to (i) incur up to \$120,000 of additional indebtedness from third-party lenders secured by real estate excluded as collateral under the 2022 Credit Agreement, (ii) incur additional mortgage financing from third-party lenders secured by real estate acquired after the initial funding of the 2022 Credit Agreement, and (iii) upon the SAFE Banking Act or similar legislation making banking services available to U.S. cannabis companies being passed by the United States Congress, incur up to \$50,000 under a revolving credit facility from third-party lenders that is *pari passu* or subordinated to the 2022 Credit Agreement obligations, all of which are subject to customary conditions.

The obligations under the 2022 Credit Agreement are secured by substantially all of the assets of the Borrowers, excluding vehicles, specified parcels of real estate and other customary exclusions. The 2022 Credit Agreement provides for a floating annual interest rate equal to the prime rate then in effect plus 6.50%, which rate may be increased by 3.00% upon an event of default or 6.00% upon a material event of default as provided in the 2022 Credit Agreement. The initially funded \$350,000 loan requires scheduled amortization payments of \$350 per month with the remaining principal balance due in full on October 30, 2026.

At any time, the Borrowers may voluntarily prepay up to \$100,000 of the principal balance of the term loans, subject to a \$1,000 prepayment premium, and may prepay the remaining outstanding principal balance for a prepayment premium at varying rates based on the timing of the prepayment. The Borrowers may not voluntarily prepay more than \$100,000 of the principal balance without prepaying the entire outstanding loan obligations.

The 2022 Credit Agreement includes customary representations, warranties and covenants and customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to material indebtedness, and events of bankruptcy and insolvency.

The 2022 Credit Agreement also includes customary negative covenants that unless otherwise permitted therein, limit the Borrowers' ability to incur additional indebtedness, grant security interests to third parties, enter into definitive documents or consummate acquisitions or dispositions, among other restrictions. Additionally, the 2022 Credit Agreement requires the Borrowers to meet financial tests regarding minimum cash balances, minimum levels of Adjusted EBITDA (as defined in the 2022 Credit Agreement) and a minimum fixed charge coverage ratio.

As of June 30, 2023, the Company was in compliance with such financial covenants.

George Archos, the Chairman, Chief Executive Officer and Founder of the Company, participated in the 2022 Credit Agreement as a lender funding \$1,000 of the \$350,000 principal amount. Mr. Archos is excluded from certain approval rights of the lenders and any penalty and fees are immaterial.

Mortgage Loans

On June 29, 2022, the Company entered into a real estate loan with a community bank to borrow a principal amount of \$18,000 secured by real estate and improvements thereon in Branchburg, New Jersey. The mortgage bears an interest rate of 4% and matures in July 2047.

On March 9, 2023, the Company entered into a real estate loan with a community bank to borrow a principal amount of \$20,000 secured by real estate and improvements thereon in Rocky Hill, Connecticut. The loan bears an interest rate of 5.75% and matures in March 2028, and may be extended for four additional five-year periods.

Other

In October 2022, the Company entered into a term loan with Chicago Atlantic Credit Opportunities, LLC for \$19,000 due in aggregate on October 31, 2024. The term loan paid interest and fees at a rate of 14.3%. The Company deferred \$100 of financing fees related to the closing of the transaction. This loan has been paid in full and is no longer outstanding as of June 30, 2023.

During the fourth quarter of 2022, the Company agreed to enter into a debt note, payable to the initial \$12,500 of contingent consideration, in connection with the Agronomed Biologics, LLC acquisition, over equal installments in 2023 and as such the amount due was reclassified from acquisition consideration payable to current portion of debt balance on the Company's Condensed Consolidated Balance Sheets as of June 30, 2023 and December 31, 2022.

Sources and Uses of Cash

Cash Provided by (Used in) Operating Activities, Investing and Financing Activities

Net cash provided by (used in) operating, investing, and financing activities for the six months ended June 30, 2023 and 2022 were as follows:

	Six Months Ended June 30,		
	2023	2022	\$ Change
Net Cash Provided by Operating Activities	\$ 40,740	\$ 43,648	\$ (2,908)
Net Cash Used in Investing Activities	(27,619)	(159,476)	131,857
Net Cash Provided by Financing Activities	4,607	109,543	(104,936)

Cash flows from Operating Activities. During the six months ended June 30, 2023 and 2022, the Company had net cash inflows of \$40,740 and \$43,648, respectively. The \$(2,908) variance was mainly driven by a decrease in inventory related to the standardization of the Company's inventory costing model which was partially offset by a decrease in income tax payable due to tax payments made during the six months ended June 30, 2023.

Cash Flows from Investing Activities. During the six months ended June 30, 2023 and 2022, the Company had net cash outflows of \$(27,619) and \$(159,476), respectively. The \$131,857 decrease in net cash outflows during the three months ended June 30, 2023 compared to the six months ended June 30, 2022 is primarily due to a variance in acquisition of business, net of cash acquired of \$(13,250) during the six months ended June 30, 2023, compared to \$(94,042) for the six months ended June 30, 2022. In addition, the decrease in net cash used in investing activities was driven by purchases of property, plant and equipment of \$(16,541) during the six months ended June 30, 2023, compared to purchases of property, plant and equipment of \$(86,851) during the six months ended June 30, 2022.

Cash Flows from Financing Activities. During the six months ended June 30, 2023 and 2022, the Company had net cash inflows of \$4,607 and \$109,543, respectively. The \$(104,936) variance was primarily driven by proceeds from the issuance of debt of \$32,167 during the six months ended June 30, 2023 when compared to \$120,774 during the six months ended June 30, 2022. The decrease in cash provided by financing activities was partially offset by principal repayments of debt for the six months ended June 30, 2023 of \$(26,876) when compared to \$(8,245) for the six months ended June 30, 2022.

Off-Balance Sheet Arrangements

The Company currently 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 its liquidity and capital resources.

Changes in or Adoption of Accounting Practices

Refer to the discussion of recently adopted/issued accounting pronouncements under Part I, Item 1, Notes to Unaudited Interim Condensed Consolidated Financial Statements, *Note 1 - Overview and Basis of Presentation*.

Critical Accounting Policies and Significant Judgements and Estimates

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 Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our market risk disclosures as set forth in Part II of the Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Transition Period to Comply with Management’s Assessment of Internal Controls over Financial Reporting

From June 25, 2022, the effective date of our Registration Statement on Form 10 and the date we became a U.S. reporting company, and continuing during a transition period provided by the SEC for newly public reporting companies in Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX"), the Company is exempted from the requirement that it include management’s report on its assessment of the Company’s internal controls over financial reporting until its second Annual Report on Form 10-K is filed with the SEC.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of June 30, 2023, the end of the period covered by this Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Form 10-Q, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Exchange Act, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Remediation of Previously Identified Material Weaknesses

In connection with the audit of our financial statements as of and for the year ended December 31, 2022, we identified material weaknesses in our internal control over financial reporting. These previously reported material weaknesses, present for all previously reported periods, pertain to the accounting treatment and calculation of stock-based compensation, the calculation of tax expense, acquisition earnouts, and the accounting treatment of consolidated entity distributions. During the fiscal year 2023, management, with the oversight of our audit committee of the Board, implemented measures designed to remediate such material weaknesses described above.

The Company implemented internal control procedures including adding additional and more robust management review controls to provide more focus on detailed analysis and enhanced documentation procedures, hired additional qualified personnel with the requisite skills and expertise to provide oversight around technical accounting, tax and equity processes, provided training to accounting process owners on policies and controls over account analysis, documentation, review and approval of journal entries and data integrity procedures, and implemented a new equity enterprise resource planning system which increases the level of automation in equity tracking and analysis thus reducing manual processes. We also had our internal audit department perform additional testing around these processes to ensure the sufficiency of our remediation efforts. Such material weaknesses have been remediated as of June 30, 2023 because the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that the controls operated effectively.