VERANO HOLDINGS CORP. (FORMERLY MAJESTA MINERALS INC.)

Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

Table of Contents

Independent Auditor's Report

To the Shareholders of Verano Holdings Corp. (formerly Majesta Minerals Inc.):

Opinion

We have audited the financial statements of Verano Holdings Corp. (formerly Majesta Minerals Inc.) (the "Company"), which comprise the statements of financial position as at December 31, 2020 and December 31, 2019, and the statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and December 31, 2019 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company incurred a net comprehensive loss during the year ended December 31, 2020 and, as of that date, the Company's total liabilities exceeded its total assets. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ahlan Veerasamy.

MNP LLP

Toronto, Ontario
April 7, 2021

Chartered Professional Accountants
Licensed Public Accountants

MNP

VERANO HOLDINGS CORP.
(FORMERLY MAJESTA MINERALS INC.)
Statements of Financial Position
As at December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	Note	**2020** **$**	2019 $
Assets			
Cash		**8,604**	1,210
GST and HST receivable		**11,479**	1,980
Total assets		**20,083**	3,190
Liabilities and Shareholders' Deficiency			
Liabilities			
Accounts payable and accrued liabilities	7	**119,736**	33,887
Convertible debenture	8	**83,951**	73,058
Due to related parties	8	**92,468**	-
Total Liabilities		**296,155**	106,945
Shareholders' Deficiency			
Share capital	6	**1,508,801**	1,407,843
Contributed surplus	9	**199,970**	155,702
Convertible debt reserve	8	**11,495**	11,495
Deficit		**(1,996,338)**	(1,678,795)
Total Shareholders' Deficiency		**(276,072)**	(103,755)
Total Liabilities and Shareholders' Deficiency		**20,083**	3,190

Going Concern (Note 2)
Subsequent Events (Note 12)

APPROVED ON BEHALF OF THE BOARD

"George Archos"
Director (signed)

The accompanying notes are an integral part of these financial statements.

VERANO HOLDINGS CORP.
(FORMERLY MAJESTA MINERALS INC.)
Statements of Loss and Comprehensive Loss
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	2020 **$**	2019 $
Expenses		
General and administrative expenses	**37,122**	24,002
Interest and accretion expense	**19,375**	7,368
Professional fees	**258,730**	43,054
Stock-based compensation	**2,316**	8,654
Loss before tax	**317,543**	83,078
Deferred tax recovery	**-**	(4,252)
Net loss and comprehensive loss for the year	**317,543**	78,826
Loss per share (basic and diluted)	**(0.02)**	(0.01)
Weighted average number of shares outstanding (basic and diluted)	**15,196,345**	13,915,502

The accompanying notes are an integral part of these financial statements.

VERANO HOLDINGS CORP.
(FORMERLY MAJESTA MINERALS INC.)
Statements of Changes in Shareholders' Deficiency
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	Note	Common shares	Share capital	Contributed surplus	Convertible debt reserve	Deficit	Total Shareholders' Deficiency
		#	$	$	$	$	$
Balance at December 31, 2018		13,915,502	1,407,843	147,048		(1,599,969)	(45,078)
Options issued	6	-	-	8,654		-	8,654
Comprehensive loss for the year		-	-	-		(78,826)	(78,826)
Equity portion of convertible debenture	6	-	-	-	15,747	-	15,747
Deferred tax on equity portion of convertible debenture	6	-	-	-	(4,252)	-	(4,252)
Balance at December 31, 2019		13,915,502	1,407,843	155,702	11,495	(1,678,795)	(103,755)
Proceeds from issuance of common shares	6	1,953,125	156,250	-	-	-	156,250
Warrant and broker warrant valuation	6	-	(51,243)	51,243	-	-	-
Comprehensive loss for the year		-	-	-	-	(317,543)	(317,543)
Exercise of warrants	6	161,424	17,362	(9,291)	-	-	8,071
Cost of issuance		-	(21,411)	-	-	-	(21,411)
Stock-based compensation		-	-	2,316	-	-	2,316
Balance at December 31, 2020		**16,030,051**	**1,508,801**	**199,970**	**11,495**	**(1,996,338)**	**(276,072)**

The accompanying notes are an integral part of these financial statements.

VERANO HOLDINGS CORP.
(FORMERLY MAJESTA MINERALS INC.)
Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	2020 $	2019 $
Operating activities		
Net loss	**(317,543)**	(83,078)
Non-cash adjustments:		
Stock-based compensation	**2,316**	8,654
Accretion expense	**10,893**	3,805
	(304,334)	(70,619)
Changes in non-cash working capital items:		
GST and HST receivable	**(9,499)**	(1,980)
Accounts payable and accrued liabilities	**85,849**	3,411
	76,350	1,431
Cash used in operating activities	**(227,984)**	(69,188)
Financing activities		
Repayment of due to related party	**-**	(14,800)
Advances from related party	**92,468**	-
Proceeds from issuance of common shares (net of issuance cost)	**134,839**	-
Proceeds from exercise of warrants	**8,071**	-
Proceeds from convertible debentures	**-**	85,000
Cash generated from financing activities	**235,378**	70,200
Increase in cash flows	**7,394**	1,012
Cash - beginning of year	**1,210**	198
Cash - end of year	**8,604**	1,210

The accompanying notes are an integral part of these financial statements.

1. Nature of operations

Verano Holdings Corp. (formerly Majesta Minerals Inc.) ("MMI" or the "Company") was incorporated on August 6, 2014 under the laws of the Province of Alberta as 1839579 Alberta Ltd. The Company changed its name on December 22, 2014 from 1839579 Alberta Ltd. to Majesta Minerals Inc. On February 11, 2021, the Company underwent a name change and amalgamated with BC Newco and became the Resulting Issuer, Verano Holdings Corp.

The registered office of the Company is located at 550 Burrard Street, Suite 2900, Vancouver, British Columbia, V6C 0A3. The Board of Directors approved the financial statements on April 7, 2021.

During the period, there was a global outbreak of COVID-19 ("Coronavirus"), which has had a significant impact on businesses through the restrictions put in place by the Canadian governments regarding travel, business operations and isolation/quarantine orders. This outbreak did not have an impact on the Company as the Company was not operating.

2. Going concern

These financial statements have been prepared on a going concern basis which assumes that the Company will realize its net assets and discharge its liabilities in the normal course of business. During the year, the Company incurred a net comprehensive loss of $317,543 (2019 - $78,826) and as at that date, the Company’s total liabilities exceeded its total assets by $276,072 (2019 – $105,735). These events or conditions indicate that a material uncertainty exists that may cast significant doubt on Company’s ability to continue as a going concern.

As at December 31, 2020, the Company currently has nominal cash at its disposal and has yet to commence active operations, as such the Company is expected to raise capital through a private placement or obtain shareholder advances to fund day to day operations. There can be no assurance the Company will be able to raise sufficient cash to fund operations.

Subsequent to the year-end, the Company completed a Reverse-Takeover (“RTO”) as disclosed in Note 12.

3. Basis of presentation

Statement of compliance

The Company's financial statements have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of measurement

The financial statements have been prepared on the historical cost basis.

Functional and presentation currency

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

3. Basis of presentation (continued)

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition seldom equal the actual results.

Key estimates that are used in the preparation of these financial statements are: completeness of accounts payable and accrued liabilities, valuation of stock-based compensation (share options), reasonableness of discount rate used to determine fair value of debt component of convertible debentures and assumptions used regarding the Company's ability to continue as a going concern.

4. Summary of significant accounting policies

Cash

Cash consists of cash on hand.

Share capital

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's common shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares, if any, are recognized in equity as a reduction from the gross proceeds received from the issued common shares.

Convertible debentures

In accordance with the substance of the contractual arrangement, convertible debentures are compound financial instruments that are accounted for separately by their components: a financial liability and an equity instrument. The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount factors, and the presence of any derivative financial instruments.

Financial assets and liabilities

Financial assets

<u>Recognition and initial measurement</u>

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

4. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash.

- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

The Company measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. The entity does not hold any equity investments.

4. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

Classification and subsequent measurement (continued)

The following table outlines the measurement categories under IFRS 9 for each class of Company's financial assets and liabilities as at December 31, 2020:

Financial Instruments	Classification under IFRS 9
Cash	FVTPL
Due to related parties	Other liabilities
Convertible debenture	Other liabilities
Accounts payables and accrued liabilities	Other liabilities

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

4. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxation profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is measured at the rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

4. Summary of significant accounting policies (continued)

Stock options and share purchase warrants

Stock options are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

Share warrants are accounted for using the fair value method under which amounts are recorded to contributed surplus and reclassified from share capital based on the estimated fair value of the warrants at the grant date using the Black-Scholes warrant pricing model.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

5. Financial risk management

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and commodity risk. These risks are managed as follows:

Credit Risk

Credit risk is the risk of loss associated with the counterparty’s inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. All of the Company’ cash is held at financial institutions which are Canadian Chartered Banks or fund held in trust with legal counsel in which management believes that the risk of loss is minimal, but the Company is subject to concentration of credit risk.

As at December 31, 2020, the aggregate gross credit risk exposure related to cash was $8,604 (December 31, 2019 - $1,210).

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. As at December 31, 2020, the Company currently has nominal cash at its disposal and has yet to commence active operations, as such the Company is expected raise capital through a private placement or obtain shareholder advances to fund day to day operations. There can be no assurance the Company will be able to raise sufficient cash to fund operations.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest on convertible debentures is not subject to cash flow interest rate risk as it bears interest at a fixed rate.

(Expressed in Canadian Dollars)

6. Share capital

Authorized:

Unlimited	Common voting shares
Unlimited	Preferred non-voting shares

	Number of common shares		Amount
Balance - December 31, 2019	**13,915,502**	**$**	**1,407,843**
Units issued for private placements (i)	1,953,125		156,250
Fair value of warrants issued (i)	-		(51,243)
Cost of issue (i)	-		(21,411)
Warrants exercised during the year (ii)	161,424		17,362
Balance - December 31, 2020	**16,030,051**	**$**	**1,508,801**

(i) The Company completed a $150,000 private placement on May 12, 2020 comprised of 1,875,000 units at $0.08 per unit. Each Unit is comprised of one common share and one share purchase warrant exercisable at $0.10 per share up to two years from date of issuance.

The grant date fair value of $49,193 was assigned to the 1,875,000 warrants issued as estimated by using a fair value market technique incorporating the Black-Scholes option pricing model, using the following assumptions: share price of $0.05; a risk-free interest rate of 0.28%; an expected volatility factor of 125%; an expected dividend yield of 0%; and an expected life of 2 years.

Additionally, the Company paid cash issuance costs totaling $15,161 and issued 78,125 units to the broker. Each Unit is comprised of one common share and one share purchase warrant exercisable at $0.10 per share up to two years from date of issuance.

The grant date fair value of $6,250 was assigned to the 78,125 broker warrants issued as estimated by using a fair value market technique incorporating the Black-Scholes option pricing model, using the following assumptions: share price of $0.05; a risk-free interest rate of 0.28%; an expected volatility factor of 125%; an expected dividend yield of 0%; and an expected life of 2 years.

(ii) During the year, 161,424 warrants were exercised to purchase 161,424 common shares at $0.05 per common share. On exercise, fair value of these warrants amounting to $9,291 was transferred from contributed surplus to share capital.

As of December 31, 2020, there were 16,030,051 (13,915,502 – December 31, 2019) common shares issued and outstanding. As of December 31, 2020, there were: (a) 1,000,000 (1,000,000 – December 31, 2019) directors stock options outstanding at $0.05 per share with a November 12, 2021 maturity date and c) 1,953,125 (nil – December 31, 2019) outstanding warrants to purchase 1,953,125 common shares at $0.10 per common share until May 12, 2022.

(Expressed in Canadian Dollars)

7. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	2020	2019
Audit fees	**$ 12,000**	$ 11,500
Legal and other fees	**107,736**	22,387
	$ 119,736	$ 33,887

8. Related party transactions

On July 31, 2019, it was agreed to settle the aggregate of $85,000 of indebtedness owing from the Company to a Company controlled by Mr. Michael Stein, CEO and director of the Company, in exchange for a secured convertible debenture in the principal amount of $85,000.

The Debenture bears interest at a rate of ten percent (10%) per annum and the principal amount thereof becomes due and payable on January 31, 2021. During the year, the maturity date of the convertible debenture agreement was extended from January 31, 2021 to September 30, 2021. Interest on the principal amount of the Debenture is due in quarterly instalments on March 31, June 30, September 30 and December 31. The above debenture is secured by a general security agreement charging all the assets of the Company.

The above debenture is convertible at the option of the holder into units at a conversion price of $0.05 per unit at any time prior to the Maturity Date. Each Unit will consist of one (1) common share and one (1) detachable share purchase warrant. Each Warrant shall entitle the holder thereof to acquire one (1) Share at a price of $0.06 per Share until two (2) years from the date of issuance (the “Warrant Shares”).

The above debenture was determined to be a compound financial instrument comprising a host debt component and a residual equity component representing the conversion feature. The host or liability component of the convertible debenture was recognized initially at fair value by discounting stream if future payments of interest and principal at prevailing market rate of 25% for a similar liability of comparable credit status and providing substantially the same cash flows that do not have an associated conversion option. The carrying amount of the debenture conversion feature was estimated using the residual method comprising the difference between the principal amount and initial carrying value of host debt component and is included as equity portion of convertible debenture in shareholders’ deficiency.

The movement in convertible debenture is as follows:

	December 31, 2020	**December 31, 2019**
	$	$
Opening Balance	73,058	-
Issuance against settlement of previous loan	-	85,500
Allocated to convertible debt reserve	-	(15,747)
Accretion for the year	10,893	3,805
Ending Balance	**83,951**	**73,058**

For above convertible debenture, $8,482 ($3,563 – December 31, 2019) of interest has been accrued and is included in accounts payable and accrued liabilities as of December 31, 2020.

(Expressed in Canadian Dollars)

8. Related party transactions (continued)

During the year, the Company incurred $83,000 for consultancy services and $10,760 for administrative services to a Company controlled by Mr. Michael Stein.

As at December 31, 2020, $92,468 (2019 – nil) was outstanding against such services and included as due to related parties on the statement of financial position.

9. Contributed surplus

The Company's contributed surplus consists of value assigned to issued warrants and options. The fair values of each option or warrant are established using the Black-Scholes option valuation model. The assumptions used in calculating the fair value of the options are:

	2020	**2019**
Risk-free interest rate	0.28%	1.71%
Expected volatility	125%	125%
Expected dividend yield	0.00%	0.00%
Share price	0.05	0.05
Strike price	0.10	0.05
Expected life	2	2

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility considers the historical volatility of the Company's shares and any other features of the option grant that may impact the measurement of fair value such as market conditions. Change in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

The following table reflects stock option activity from January 1, 2020 to December 31, 2020 and the weighted average exercise price.

	Year ended December 31, 2020 $		**Year Ended December 31, 2019 $**	
	Number	Exercise price	Number	Exercise price
Outstanding at beginning of year	1,000,000	$0.05	1,000,000	$0.05
Issued (i)	100,000	0.07	250,000	$0.05
Exercised	-	-	-	-
Cancelled (i)	(100,000)	(0.07)	(250,000)	-
Outstanding at end of year	**1,000,000**	**$0.05**	**1,000,000**	**$0.05**

(i) On June 19, 2020 the Company entered into a consulting agreement with a third party to assist with on a potential transaction. The agreement granted the consultant an option to purchase 100,000 common shares at $0.07 per share, with an expiration date of November 12, 2021. The stock options vested immediately. A value of $2,316 was assigned to the options using the Black-Scholes pricing model with the assumptions stated above. On July 27, 2020, the stock options and the agreement were cancelled.

The following table reflects share purchase warrants activity from January 1, 2020 to December 31, 2020 and the weighted average exercise price.

(Expressed in Canadian Dollars)

9. Contributed surplus (continued)

	December 31, 2020		December 31, 2019	
	Number	Exercise price	Number	Exercise price
Outstanding at beginning of period	161,424	$0.05	161,424	$0.05
Issued during the year	1,953,125	$0.10	-	-
Exercised	(161,424)	$0.05	-	-
Outstanding at end of year	**1,953,125**	**$.10**	**161,424**	**0.05**

As of December 31, 2020, there are 1,953,125 warrants (nil – December 31, 2019) which expire on May 12, 2022.

10. Income Tax

The income tax provision recorded differs from the income tax obtained by applying the statutory for income tax rate of 24% (2019 - 27%) to the income the year and is reconciled as follows:

	2020 **$**	2019 $
Loss before taxes	(317,543)	(83,078)
Effective tax rate	24%	27.00%
Expected income tax expense (recovery)	(76,193)	(22,431)
Non-deductible items	556	2,337
Share issuance cost recorded in equity	(4,925)	
Tax rate changes and other adjustments	67,513	(155,509)
	(13,049)	(175,603)
Unrecognized deferred income tax	13,049	171,351
Income tax expense (recovery)	-	(4,252)

The Company's income tax (recovery) provision is allocated as follows:

Current tax provision	-	-
Deferred tax provision (recovery)	-	(4,252)
	-	(4,252)

The following table summarizes the components of deferred tax:

	2020 **$**	2019 $
Deferred Tax Assets		
Non-capital loss carry forward	241	$ 3,224
Deferred Tax Liabilities		
Convertible debentures	(241)	($3,224)
Net deferred taxes	-	$ -

(Expressed in Canadian Dollars)

10. Income Tax (continued)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in deferred tax liabilities:

	December 31, 2020	December 31, 2019
	$	$
Opening Balance	-	-
Recognized in statement of comprehensive loss	-	4,252
Recognized in equity	-	(4,252)
Ending Balance	**-**	**-**

The Company has incurred cumulative losses of $1,928,971 for tax purposes which are available to reduce future taxable income. The losses will expire as follows:

	$
2034	186,021
2035	1,275,935
2036	-
2037	11,603
2038	33,475
2039	70,619
2040	308,617
	$ 1,928,971

11. Capital management

The Company manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares and acquire or sell investments they hold to improve its financial performance and flexibility.

The Company defines its capital as its shareholders' equity. As needed, the Company is expected to raise funds through private placements or other equity financing. The Company does not utilize long term debt as the Company does not currently generate operating revenues.

	December 31, 2020	December 31, 2019
Equity comprised of:		
Share Capital	1,508,801	1,407,843
Contributed Surplus	199,970	155,702
Convertible debt reserve	11,495	11,495
Deficit	(1,996,338)	(1,678,795)
	(276,072)	**(103,755)**

12. Subsequent events

On December 14, 2020, the Company entered into a business combination agreement with Verano Holdings, BC Newco and 1278655 B.C. Ltd. with respect to the Business Combination pursuant to which the Company agreed that a subsidiary of the Company would merge with and into Verano Holdings and the Company would acquire certain membership interests of Verano Holdings and the AME Parties each in exchange for shares of the company resulting from the Business Combination.

Although the Business Combination resulted in Verano Holdings becoming a wholly owned subsidiary of the Company, given the former shareholders of Verano Holdings received 73.84% of the issued and outstanding shares of the resulting Company, for accounting purposes, Verano Holdings is considered the acquirer and the Company is considered the acquiree and the transaction was accounted for as a reverse takeover.