
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2023

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 000-56342

VERANO HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

British Columbia, Canada

(State or other jurisdiction of incorporation or organization)

98-1583243

(I.R.S. Employer Identification No.)

**415 North Dearborn Street, 4th Floor, Chicago,
Illinois**

(Address of Principal Executive Offices)

60654

(Zip Code)

Registrant's telephone number, including area code: (312) 265-0730

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
N/A	N/A	N/A

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

[Table of Contents](#)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

As of May 8, 2023, the registrant had 342,527,887 Class A subordinate voting shares and no Class B proportionate voting shares outstanding.

TABLE OF CONTENTS

	<u>Pages</u>
<u>Part I - Financial Information</u>	<u>1</u>
<u>Item 1. Condensed Consolidated Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>2</u>
<u>Unaudited Interim Condensed Consolidated Statements of Operations</u>	<u>3</u>
<u>Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity</u>	<u>4</u>
<u>Unaudited Interim Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Unaudited Interim Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
<u>Item 4. Controls and Procedures</u>	<u>34</u>
<u>Part II - Other Information</u>	<u>36</u>
<u>Item 1. Legal Proceedings</u>	<u>36</u>
<u>Item 1A. Risk Factors</u>	<u>36</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>36</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>36</u>
<u>Item 5. Other Information</u>	<u>36</u>
<u>Item 6. Exhibits</u>	<u>37</u>
<u>Signatures</u>	<u>38</u>

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this “Form 10-Q”) contains “forward-looking information” and “forward-looking statements” within the meaning of United States securities laws (together, “forward-looking statements”). All statements, other than statements of historical fact, made by the Company or its affiliates that address activities, events or developments that the Company or its affiliates expect or anticipate will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as “may,” “will,” “would,” “could,” “should,” “believes,” “assumes,” “estimates,” “projects,” “potential,” “expects,” “plans,” “intends,” “anticipates,” “targeted,” “continues,” “forecasts,” “designed,” “goal,” or the negative of those words or other similar or comparable words.

The forward-looking statements contained herein are based on certain key expectations and assumptions, including, but not limited to, expectations and assumptions concerning:

- our ability to obtain, maintain and renew regulatory approvals in all states and localities of its operations and planned operations on a timely basis;
- government regulations, including future U.S. state and federal legislative and regulatory developments involving medical and adult use cannabis and the timing thereof;
- our outlook on our expansion and growth of business and operations;
- our ability to achieve our goals, business plans and strategy;
- our ability to access capital and obtain necessary financing to pursue our growth and business plans;
- our operational results and other financial and business conditions and prospects;
- the timing and completion of acquisitions and other commercial transactions;
- the integration and operation of acquired businesses;
- the timing and amount of capital expenditures;
- the availability of equipment, skilled labor and services needed for cannabis operations;
- demand, developments and trends in the medical and adult use cannabis industry;

[Table of Contents](#)

- competition in the cannabis industry in the markets in which we operate or plan to operate;
- the medical benefits, viability, safety, efficacy, and dosing of cannabis;
- the size of the medical cannabis market and the adult use cannabis market in each state;
- conditions in general economic and financial markets; and
- the impacts of the coronavirus (COVID-19) pandemic and future steps to be taken in response to COVID-19.

Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then-current expectations of the party making the statement and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

- the impacts of economic uncertainty stemming from inflation, rising interest rates, supply shortages, changes in consumer and business confidence, political unrest and conflicts and disruptions in U.S. and global markets;
- the impacts of COVID-19 on us, the U.S. and global markets;
- our limited operating history;
- reporting and regulatory requirements resulting from the fact that we are an SEC reporting company in addition to a public reporting company in Canada;
- heightened scrutiny from Canadian government and regulatory authorities;
- our outstanding indebtedness and potential future indebtedness;
- reliance on management and the potential for fraudulent activity by employees, contractors and consultants;
- uninsured or under insured losses;
- potential product liability and recalls;
- our reliance on the performance of our subsidiaries and affiliates;
- our expansion-by-acquisition strategy;
- the unconventional due diligence process in the cannabis industry;
- the integration and operation of acquired businesses;
- our lack of portfolio diversification;
- existing competition and new market entrants;
- the introduction of synthetic alternatives to cannabis products by pharmaceutical and other companies;
- the immaturity of the cannabis industry and limited comparable, competitive and established industry best practices;
- the availability of third-party suppliers, contractors and manufacturers, and availability of raw or other materials;
- wholesale and retail price fluctuations;
- rising or volatile energy costs;
- public opinion and perception of the cannabis industry;
- agricultural and environmental risks and the impacts of regulations on the cannabis industry and environmental protections;
- the U.S. federal regulatory landscape and enforcement related to medical or adult use cannabis, including political risks, civil asset forfeiture and regulation by additional regulatory authorities;
- the difficulties cannabis businesses face accessing and maintaining banking or financial services due to federal regulations;
- regulatory and political changes to U.S. state and local laws related to medical or adult use cannabis, including political risks and regulation by additional regulatory authorities;
- disparate state-by-state regulatory landscapes and licensing regimes for medical and adult use cannabis;
- the requirements to abide by anti-money laundering laws and regulations;
- required public disclosure and governmental filings containing personal information of our officers, investors and other stakeholders;
- the ability to, and constraints on, promoting and marketing cannabis products;
- the potential limitations on our ability to enforce our contracts or any liens granted to it;
- the ability to access capital markets and the availability of financing opportunities;
- the lack of access to federal bankruptcy protections in the U.S.;
- limited intellectual property protection available for cannabis products and the potential infringement by third parties;
- reliance on information technology systems, the potential disclosure of personal information of patients and customers and cybersecurity risks;

[Table of Contents](#)

- our elimination of monetary liability and indemnification rights against its directors, officers and employees under British Columbia law;
- our dual class capital structure with Class A subordinate voting shares and Class B proportionate voting shares;
- our shareholders' limited participation in our affairs;
- our expectation to not declare or pay out dividends;
- our ability to refinance our indebtedness and the terms of any such refinancing;
- litigation costs, including any damages, in connection with the pending Goodness Growth Holdings, Inc. litigation;
- any determination of impairment to our assets;
- the taxation of cannabis companies in the U.S.; and
- other risks described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the U.S. Securities and Exchange Commission on March 30, 2023, as more particularly described under the heading "Item 1A. Risk Factors" therein.

Although we believe that the expectations and assumptions on which forward-looking statements are based are reasonable at the time made, undue reliance should not be placed on the forward-looking statements, because no assurance can be given that they will prove to be correct. Forward-looking statements address future events and conditions, and thus involve inherent risks and uncertainties.

The cannabis industry involves risks and uncertainties that are subject to change based on various factors. The forward-looking statements contained herein concerning the cannabis industry and our general expectations concerning the cannabis industry are based on estimates prepared by us using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of the cannabis industry. Such data is inherently imprecise.

Consequently, all forward-looking statements made in this Form 10-Q and our other documents are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on us. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under applicable securities legislation.

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	March 31, 2023	December 31, 2022
	<i>(Unaudited)</i>	
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 95,129	\$ 84,851
Accounts Receivable, net	18,250	16,580
Held for Sale Assets	1,735	3,433
Inventory	153,607	164,532
Prepaid Expenses and Other Current Assets	47,036	48,879
Total Current Assets	315,757	318,275
Property, Plant and Equipment, net	523,103	525,905
Right of Use Assets, net	82,969	82,278
Intangible Assets, net	1,157,901	1,180,766
Goodwill	269,088	269,088
Investment in Associates	6,817	6,977
Deposits and Other Assets	13,331	12,766
TOTAL ASSETS	\$ 2,368,966	\$ 2,396,055
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 30,524	\$ 40,501
Accrued Liabilities	37,905	41,762
Income Tax Payable	247,749	252,767
Current Portion of Lease Liabilities	9,239	8,889
Current Portion of Debt	23,187	24,464
Acquisition Consideration Payable	14,782	18,262
Total Current Liabilities	363,386	386,645
Long-Term Liabilities:		
Deferred Revenue	255	255
Debt, net of Current Portion	392,156	388,540
Lease Liabilities, net of Current Portion	77,592	76,853
Deferred Income Taxes	193,367	196,473
Other Long-Term Liabilities	5,739	5,739
Total Long-Term Liabilities	669,109	667,860
TOTAL LIABILITIES	\$ 1,032,495	\$ 1,054,505
Contingencies and Other (See Note 11)		
SHAREHOLDERS' EQUITY	1,336,471	1,341,550
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,368,966	\$ 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 March 31,	
	2023	2022
		<i>(As Restated)</i>
Revenues, net of Discounts	\$ 227,060	\$ 202,235
Cost of Goods Sold, net	117,875	103,618
Gross Profit	109,185	98,617
Selling, General, and Administrative Expenses	75,243	89,560
Income (Loss) from Investments in Associates	(160)	2,005
Income from Operations	33,782	11,062
Other Income (Expense):		
Gain (Loss) on Disposal of Property, Plant and Equipment	67	(990)
Gain on Deconsolidation	—	9,558
Gain on Previously Held Equity Interest	—	14,099
Loss on Debt Extinguishment	(663)	—
Interest Expense, net	(15,906)	(10,671)
Other Income, net	1,803	2,534
Total Other Income (Expense)	(14,699)	14,530
Income Before Provision for Income Taxes and Non-Controlling Interest	19,083	25,592
Provision For Income Taxes	(28,320)	(25,515)
Net Income (Loss) Before Non-Controlling Interest	(9,237)	77
Net Income Attributable to Non-Controlling Interest	—	291
Net Loss Attributable to Verano Holdings Corp. & Subsidiaries	\$ (9,237)	\$ (214)
Net Loss per share – basic	(0.03)	(0.00)
Net Loss per share – diluted	(0.03)	(0.00)
Basic – weighted average shares outstanding	341,478,860	326,285,814
Diluted – weighted average shares outstanding	341,478,860	326,285,814

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 January 1, 2022 (As Restated)	324,312,662	\$ 1,535,765	\$ —	\$ (55,235)	\$ 1,276	\$ 1,481,806
Share-based compensation	771,337	11,742	—	—	—	11,742
Issuance of shares in conjunction with acquisitions	1,403,067	13,220	—	—	—	13,220
Non-controlling interest adjustment for change in ownership	—	—	—	—	(1,567)	(1,567)
Contingent consideration & other adjustments to purchase accounting	1,381,332	17,505	—	—	—	17,505
Net income (loss)	—	—	—	(214)	291	77
Balance as of March 31, 2022 (As Restated)	<u>327,868,398</u>	<u>\$ 1,578,232</u>	<u>\$ —</u>	<u>\$ (55,449)</u>	<u>\$ —</u>	<u>\$ 1,522,783</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, 2023	339,983,374	\$ 1,665,957	\$ (8)	\$ (324,399)	\$ —	\$ 1,341,550
Share-based compensation	117,948	506	—	—	—	506
Issuance of shares to relieve liability obligations, net	603,396	3,653	—	—	—	3,653
Foreign currency translation adjustment	—	—	(1)	—	—	(1)
Contingent consideration & other adjustments to purchase accounting	1,625,546	—	—	—	—	—
Net loss	—	—	—	(9,237)	—	(9,237)
Balance as of March 31, 2023	<u>342,330,264</u>	<u>\$ 1,670,116</u>	<u>\$ (9)</u>	<u>\$ (333,636)</u>	<u>\$ —</u>	<u>\$ 1,336,471</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)

	Three Months Ended March 31,	
	2023	2022
		<i>(As Restated)</i>
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss attributable to Verano Holdings Corp. and Subsidiaries	\$ (9,237)	\$ (214)
Net income attributable to non-controlling interest	—	291
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	35,056	34,434
Right of use assets amortization	2,609	1,959
Non-cash interest expense	593	674
Non-cash inventory step-up expense on acquisitions	—	4,612
(Gain) Loss on disposal of property, plant and equipment	(67)	990
Gain on deconsolidation	—	(9,558)
Gain on investments in associates	—	(14,099)
Amortization of debt issuance costs	1,033	1,514
Loss on debt extinguishment	663	—
Unrealized (gain) loss on marketable securities	256	(66)
(Income) Loss from underlying investees	160	(455)
Increase (decrease) in fair value of contingent consideration	(3,466)	1,125
Stock based compensation	544	10,912
Changes in operating assets and liabilities:		
Accounts receivable	(1,670)	(269)
Inventory	10,885	(26,595)
Prepaid expenses and other current assets	1,586	1,117
Deposits and other assets	(563)	(2,619)
Accounts payable	(11,316)	19,873
Accrued liabilities	131	(12,233)
Lease liabilities	(2,211)	(1,600)
Income tax payable	(5,018)	27,995
Deferred taxes	(3,106)	(3,212)
Other, net	—	(119)
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,862	34,457
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(8,555)	(48,300)
Proceeds from disposal of assets	1,830	1,818
Acquisition of business, net of cash acquired	(500)	(60,082)
Proceeds from sale of deconsolidation and investment in associates	—	19,821
NET CASH USED IN INVESTING ACTIVITIES	(7,225)	(86,743)

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)

	Three Months Ended March 31,	
	2023	2022
		<i>(As Restated)</i>
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt	\$ 23,710	\$ 102,660
Principal repayments of debt	(22,759)	(6,870)
Debt issuance costs paid	(309)	(2,985)
NET CASH PROVIDED BY FINANCING ACTIVITIES	642	92,805
Effects of exchange rate fluctuations on cash and cash equivalents	(1)	—
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,278	40,519
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	84,851	99,118
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 95,128	\$ 139,637
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net	\$ 15,313	\$ 9,999
Issuance of shares to relieve liability obligations, net	\$ 3,653	\$ —
NONCASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures	\$ 6,908	\$ 2,043
Consideration received in stock for the disposal of assets	\$ —	\$ 3,776
Issuance of shares under business combinations	\$ —	\$ 27,135
Acquisitions		
Tangible and intangible assets acquired, net of cash	\$ —	\$ 17,532
Liabilities assumed	—	(3,981)
Acquisition consideration payable	500	38,936
Goodwill	—	7,595
	\$ 500	\$ 60,082

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 licensees across 14 state markets (Arizona, Arkansas, California, 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 months ended March 31, 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) Restatement of Previously Issued Interim Consolidated Financial Statements

The notes included herein should be read in conjunction with the 2022 Annual Audited Financials. As described in the Form 10-K, the Company restated its previously issued unaudited interim condensed consolidated financial statements for the quarter ended March 31, 2022 (collectively, the "Restatements"). Amounts as of or for the period ended March 31, 2022 depicted in these unaudited interim condensed consolidated financial statements include the impact of the Restatements:

(i) As a result of an error related to stock-based compensation as of and for the quarter ended March 31, 2022, the Company increased Inventory by \$3,898, Cost of Goods Sold, net by \$1,052, and Salaries and Benefits expense by \$9,572.

(ii) As a result of overstatement of tax expense due to a clerical error, the Company's tax expense was overstated by \$20,274 with corresponding adjustments to Income Tax Payable of (\$23,071) and an increase to Deferred Income Taxes of \$2,659 as of and for the quarter ended March 31, 2022. There was no net cash impact to the unaudited interim condensed consolidated financial statements for the quarter ended March 31, 2022, for these restatement items.

(iii) Also, the Investment in Associates was corrected to account for distributions in excess of investment resulting in an increase of Equity Income of \$1,638 at March 31, 2022, with a reduction in Disposition of Investments of \$3,176 at March 31, 2022.

Additionally, The Company determined that it had information after March 31, 2022, but before the March 31, 2022 financials were publicly filed regarding the Connecticut Pharmaceutical Solutions, Inc. and The Healing Center, LLC acquisition earnouts, as described in *Note 10 - Transactions* to the 2022 Annual Audited Financials included in the Form 10-K. As a result, the Company recognized an aggregate \$4,760 reduction in these expected acquisition earnouts which was recorded in the quarter ended March 31, 2022 to reflect the subsequent information indicating a lower liability. *For additional information regarding the Restatements, please refer to the Form 10-K.*

(d) 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.

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)*

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 months ended March 31, 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 March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Raw Materials	\$ 4,511	\$ 7,120
Work in Process	117,039	123,101
Finished Goods	32,057	34,311
Total Inventory	\$ 153,607	\$ 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 March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Land	\$ 31,817	\$ 31,877
Buildings and Improvements	197,400	197,819
Furniture and Fixtures	17,507	16,189
Computer Equipment and Software	22,894	21,478
Leasehold Improvements	218,329	211,785
Tools and Equipment	89,584	88,507
Vehicles	4,992	4,992
Assets Under Construction ⁽¹⁾	40,910	41,800
	<hr/>	<hr/>
Total Property, Plant and Equipment, Gross	623,433	614,447
Less: Accumulated Depreciation	(100,330)	(88,542)
	<hr/>	<hr/>
Property, Plant and Equipment, Net	<u>\$ 523,103</u>	<u>\$ 525,905</u>

⁽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 March 31, 2023 and March 31, 2022, depreciation expense included in costs of goods sold totaled \$8,524 and \$7,057, respectively. For the three months ended March 31, 2023 and March 31, 2022, depreciation expense included in selling, general, and administrative expense totaled \$3,667 and \$2,540, 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 March 31, 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 March 31, 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	21,250	1,355	260	22,865
Balance as of March 31, 2023	<u>\$ 164,496</u>	<u>\$ 10,934</u>	<u>\$ 2,247</u>	<u>\$ 177,677</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 March 31, 2023	<u>\$ 1,110,485</u>	<u>\$ 43,232</u>	<u>\$ 4,184</u>	<u>\$ 1,157,901</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 March 31, 2023:

Year Ending December 31:	Estimated Amortization
2023 (Remaining)	\$ 68,595
2024	91,461
2025	91,461
2026	90,746
2027	90,672
Thereafter	724,966
	<u>\$ 1,157,901</u>

The changes in the carrying amount of goodwill, by reportable segment, for the three months ended March 31, 2023 were as follows:

	January 1, 2023	Impairment	Adjustments to purchase price allocation	Acquisitions	March 31, 2023
Cultivation	\$ 83,004	\$ —	\$ —	\$ —	\$ 83,004
Retail	186,084	—	—	—	186,084
Total	<u>\$ 269,088</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 269,088</u>

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 months ended March 31, 2023 and March 31, 2022 were as follows:

	Three Months Ended March 31,	
	2023	2022
		<i>(As Restated)</i>
Numerator		
Net Loss attributable to Verano Holdings Corp.	\$ (9,237)	\$ (214)
Denominator		
<u>Basic</u>		
Weighted-average shares outstanding – basic	341,478,860	326,285,814
<u>Diluted</u>		
Weighted-average shares outstanding – diluted	341,478,860	326,285,814
Net Loss per share - basic	(0.03)	(0.00)
Net Loss per share - diluted	(0.03)	(0.00)

Potentially dilutive securities of approximately 365,774 for the three months ended March 31, 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.

First Quarter 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 March 31, 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 Statement of Operations includes net revenue of \$4,519 and net income of \$780 related to the acquired operations of Greengate for the three months ended March 31, 2023.

Pro forma net revenues and net income for the consolidated company for the three months ended March 31, 2022 are \$205,047 and \$273, 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 March 31, 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.

The Company's Unaudited Interim Condensed Consolidated Statement of Operations includes net revenue of \$3,474 and net income of \$46 related to the acquired operations of Sierra Well for the three months ended March 31, 2023.

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 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 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.

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 three months ended March 31, 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 March 31, 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 March 31, 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 March 31, 2023, the outstanding consideration value was estimated to be zero.

7. DEBT

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

	March 31, 2023	December 31, 2022
Credit Facility	\$ 350,000	\$ 350,000
Secured Promissory Notes	11,259	36,805
Mortgage Loans	71,689	44,985
Vehicle and Equipment Loans	1,618	1,824
Unamortized Debt Issuance Costs	(19,223)	(20,610)
Total Debt	\$ 415,343	\$ 413,004
Less: Current Portion of Debt	23,187	24,464
Total Long-Term Debt, net	\$ 392,156	\$ 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 March 31, 2023, the Company was in compliance with such 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.

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

7. DEBT (Continued)

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 pays 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 March 31, 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 March 31, 2023 and December 31, 2022.

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 March 31, 2023, the Company had 342,330,264 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.

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

8. SHARE CAPITAL *(Continued)*

(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 three months ended March 31, 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 three months ended March 31, 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.

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	9,292	30.60	—
Unvested Options Balance at March 31, 2023	10,705	29.73	7.89
Inception to date Vested and Exercisable at March 31, 2023	29,284	30.20	7.87

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

8. SHARE CAPITAL *(Continued)*

As of March 31, 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 three months ended March 31, 2023.

Restricted Stock Units (“RSUs”)

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

	Number of Shares	Weighted Avg. Grant Date Fair Value C\$
Unvested RSUs at December 31, 2022	2,981,327	11.39
Granted	—	—
Forfeited	80,474	10.11
Vested	100,635	28.73
Unvested RSUs at March 31, 2023	2,800,218	10.80

The stock-based compensation expense for the three months ended March 31, 2023 and 2022 were as follows:

	Three Months Ended March 31,	
	2023	2022
Stock Options	\$ 76	\$ 63
Restricted Stock Units	468	10,849
Total Stock Based Compensation Expense	\$ 544	\$ 10,912

9. INCOME TAXES

The following table summarizes the Company’s income tax expense and effective tax rates for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
Income before Income Taxes	\$ 19,083	\$ 25,592
Income Tax Expense	(28,320)	(25,515)
Effective Tax Rate	148 %	100 %

The effective tax rates for the three months ended March 31, 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 \$4,847 and \$1,970 were recorded during the three months ended March 31, 2023 and 2022, respectively. Discrete items recorded during the three months ended March 31, 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.

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

9. INCOME TAXES *(Continued)*

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.

Taxes paid during the three months ended March 31, 2023 were \$36,394. No Taxes were paid during the three months ended March 31, 2022.

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.

During the three months ended March 31, 2023 and 2022, the Company recorded approximately \$4,313 and \$3,314 in operating lease expense, respectively, of which \$206 and \$147 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 March 31, 2023 and December 31, 2022, were as follows:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Weighted average remaining lease term - years	8.17	8.12
Weighted average discount rate	8.14 %	8.02 %

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

10. LEASES (Continued)

Maturities of lease liabilities for operating leases as of March 31, 2023 were as follows:

Year Ending December 31,	Maturities of Lease Liability	
Remainder 2023	\$	11,989
2024		15,506
2025		14,583
2026		13,735
2027		13,055
2028 and Thereafter		57,257
Total Lease Payments		126,125
Less: Imputed Interest		(39,294)
Present Value of Lease Liability	\$	86,831

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 March 31, 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.

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. 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 three months ended March 31, 2023.

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

11. CONTINGENCIES AND OTHER *(Continued)*

(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.

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.

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

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 March 31,	
	2023	2022
<i>Revenue, net of discounts</i>		
Cultivation (Wholesale)	\$ 80,267	\$ 53,008
Retail	184,242	164,334
Intersegment Eliminations	(37,449)	(15,107)
Total Revenue, net of discounts	<u>227,060</u>	<u>202,235</u>
<i>Depreciation and Amortization</i>		
Cultivation (Wholesale)	18,522	19,725
Retail	16,534	14,709
Total Depreciation and Amortization	<u>35,056</u>	<u>34,434</u>
<i>Income taxes</i>		
Cultivation (Wholesale)	10,257	11,237
Retail	18,063	14,278
Total Income Taxes	<u>28,320</u>	<u>25,515</u>

Goodwill assigned to the cultivation (wholesale) segment as of March 31, 2023 and December 31, 2022 was \$83,004. Goodwill assigned to the retail segment as of March 31, 2023 and December 31, 2022 was \$186,084.

The Company's assets are aggregated into two reportable segments (retail and cultivation). 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 (retail and cultivation) 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 March 31, 2023, there were approximately 78,000,000¹ points outstanding with an approximate value of \$3,981. 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 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 March 31, 2023 and December 31, 2022.

	March 31, 2023	December 31, 2022
Current Assets	\$ 74,438	\$ 48,952
Due To/(From)	—	—
Non-Current Assets	82,671	72,081
Current Liabilities	12,537	10,193
Non-Current Liabilities	10,354	8,939
Non-Controlling Interest	—	—
Equity attributable to Verano Holdings, Corp.	134,218	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 HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(\$ in Thousands except shares and per share amounts)

14. CONSOLIDATION *(Continued)*

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.

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 March 31, 2023 and December 31, 2022 was \$415,343 and \$413,004, which included \$23,187 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 March 31, 2023			
	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 95,129	\$ —	\$ —	\$ 95,129
Investments	1,548	—	—	1,548
Acquisition Consideration Payable	—	—	(14,782)	(14,782)
Total	\$ 96,677	\$ —	\$ (14,782)	\$ 81,895

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 March 31, 2023, the Company held publicly traded shares of \$1,548, which is included in other assets in the accompanying Condensed Consolidated Balance Sheet, and is a Level 1 financial instrument.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events to determine if events or transactions occurring through the filing date of this Quarterly Report on Form 10-Q require adjustment to or disclosure in the Company's unaudited interim condensed consolidated financial statements. There were no events that require adjustment to or disclosure in the unaudited interim condensed consolidated financial statements, except as disclosed elsewhere and below.

On April 21, 2023, the Company terminated that certain Equity Purchase Agreement, dated as of July 7, 2022, by and among Verano Virginia, LLC, MM Enterprises USA, LLC, and PharmaCann Virginia LLC ("MedMen VA"), as a result of MedMen VA's unsuccessful appeal to have the conditional pharmaceutical processor facility permit previously issued to it by the Virginia Board of Pharmacy reinstated.

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 months ended March 31, 2023 and March 31, 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 months ended March 31, 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 is a leading vertically integrated multi-state cannabis company and is one of the largest publicly traded multi-state operators in the U.S. by reported annual revenue for the year ended December 31, 2022. As an operator of licensed cannabis cultivation, processing, wholesale distribution and retail facilities, our goal is to support the ongoing development of communal wellness by providing responsible access to regulated medical and adult use cannabis products. All of our business, operating results, and financial condition relate to U.S. cannabis-related activities. As of May 8, 2023, through our subsidiaries and affiliates, we are licensed to conduct businesses in 14 states and actively operate businesses in 13 states, including 126 retail dispensaries, and 14 cultivation and processing facilities with over 1,000,000 square feet of cultivation capacity. We produce a wide variety of high quality cannabis products sold under our portfolio of consumer brands, including Encore™, Avexia™, MÜV™, Savvy™, BITS™ and Verano™. We also design, build and operate branded retail environments including Zen Leaf™ and MÜV™ dispensaries that deliver a cannabis shopping experience in both medical and adult use markets.

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, 22 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 11 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 months ended March 31, 2023 and 2022 and (ii) condensed consolidated balance sheets as of March 31, 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 March 31, 2023, as Compared to Three Months Ended March 31, 2022

(\$ in thousands)	Three Months Ended March 31,		
	2023	2022	\$ Change
Revenues, net of discounts	\$ 227,060	\$ 202,235	\$ 24,825
Gross Profit	109,185	98,617	10,568
Net Loss attributable to Verano Holdings Corp. & Subsidiaries	(9,237)	(214)	(9,023)
Net Loss per share – basic & diluted	(0.03)	(0.00)	(0.03)

Revenues, net of discounts

Revenues, net of discounts for the three months ended March 31, 2023 was \$227,060, an increase of \$24,825 or 12.3%, compared to revenue of \$202,235 for the three months ended March 31, 2022. Key performance drivers for retail revenue for the quarter were primarily driven by 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. During the three months ended March 31, 2023, the Company opened six 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 seasonality, as well as, increased competition in select markets, specifically in Illinois and Pennsylvania, when comparing the three months ended March 31, 2022 to the three months ended March 31, 2023. Retail revenue for the three months ended March 31, 2023 was approximately 69.7% of total revenue compared to 75.6% of total revenue for the three months ended March 31, 2022, excluding intersegment eliminations. Key performance drivers for cultivation (wholesale) revenues were continued cultivation expansion into the New Jersey and Connecticut adult use markets which attributed to increased production output and sales of cannabis flower and cannabis related products, including intercompany sales when compared to the three months ended March 31, 2022. Cultivation (wholesale) revenue for the three months ended March 31, 2023 was 30.3% of total revenue compared to 24.4% of total revenue for the three months ended March 31, 2022, excluding intersegment eliminations.

Gross Profit

Gross profit for the three months ended March 31, 2023 was \$109,185, representing a gross margin on the sale of cannabis, cannabis extractions, edibles and related accessories of 48.1%. This is compared to gross profit for the three months ended March 31, 2022 of \$98,617, which represented a 48.8% gross margin on the sale of cannabis, cannabis extractions, edibles and related accessories. The increase in gross profit during the three months ended March 31, 2023 was primarily attributable to improved sell through of Verano products and a lower comparative impact related to inventory step-ups from acquisitions, which was offset by pricing pressure, which contributed to a lower gross profit margin as compared to the three months ended March 31, 2022.

Net Loss

Net Loss attributable to the Company for the three months ended March 31, 2023 was \$(9,237), an increase of \$(9,023), compared to a net loss of \$(214) for the three months ended March 31, 2022. The variance in net loss 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 three months ended March 31, 2023 compared to a gain on deconsolidation and a gain on previously held equity interests for the three months ended March 31, 2022.

(\$ in thousands)	Three Months Ended March 31,		
	2023	2022	\$ Change
Cost of Goods Sold, net	\$ 117,875	\$ 103,618	\$ 14,257
Selling, General, and Administrative Expenses	75,243	89,560	(14,317)
Other Income (Expense)	(14,699)	14,530	(29,229)
Provision for Income Taxes	(28,320)	(25,515)	(2,805)

Cost of Goods Sold, net

Cost of goods sold includes the costs directly attributable to cultivating and processing cannabis and for retail purchases of finished goods, such as flower, edibles, and concentrates. Cost of goods sold for the three months ended March 31, 2023 was \$117,875, an increase of \$14,257 or 13.8%, from the three months ended March 31, 2022. The variance was primarily driven by overall top-line revenue growth and from market expansion into New Jersey.

Selling, General, and Administrative Expenses

Total selling, general and administrative expenses for the three months ended March 31, 2023 were \$75,243, a decrease of \$14,317 or 16.0%, compared to total selling, general and administrative expenses of \$89,560 for the three months ended March 31, 2022. Total selling, general and administrative expenses as a percentage of revenue was 33.1% and 44.3% for the three months ended March 31, 2023, and 2022, respectively. The decrease was primarily due to a \$7,528 decrease in salaries and benefits and a \$7,993 decrease in general and administrative expenses driven largely by earn out activity during the three months ended March 31, 2022. Additionally, selling, general and administrative expenses for the three months ended March 31, 2023 included lower stock based compensation expense compared to the three months ended March 31, 2022, driven by a prior period expense acceleration benefit during the three months ended March 31, 2022 and lower award grants during the three months ended March 31, 2023.

Other Income (Expense)

Total other income (expense) for the three months ended March 31, 2023, was \$(14,699), a decrease of \$29,229 as compared to the three months ended March 31, 2022. During the three months ended March 31, 2022 other income was increased primarily due to a gain on deconsolidation of \$9,558 and a gain on previously held equity interest of \$14,099 which attributed to the overall period over period decrease in other income (expense). Additionally, the decrease in other income (expense) was partially offset by an increase of interest expense as a result of the 2022 Credit Agreement for the three months ended March 31, 2023.

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 March 31, 2023, was \$(28,320), an increase of \$2,805 or 11.0% as compared to the three months ended March 31, 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 months ended March 31, 2023 and 2022:

(\$ in thousands)	Three Months Ended March 31,		
	2023	2022	% Change
Revenues, net of discounts			
Cultivation (Wholesale)	\$ 80,267	\$ 53,008	51.4 %
Retail	184,242	164,334	12.1 %
Intersegment Eliminations	(37,449)	(15,107)	147.9 %
Total Revenues, net of discounts	<u>\$ 227,060</u>	<u>\$ 202,235</u>	<u>12.3 %</u>

Revenues, net of discounts, for the cultivation (wholesale) segment were \$80,267 for the three months ended March 31, 2023, an increase of \$27,259 or 51.4%, compared to the three months ended March 31, 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.

Revenues, net of discounts for the retail segment were \$184,242 for the three months ended March 31, 2023, an increase of \$19,908 or 12.1%, compared to the three months ended March 31, 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 March 31, 2023, approximately 30.3% of the Company's revenue was generated from the cultivation (wholesale) business, excluding intersegment eliminations, and approximately 69.7% from the retail business, excluding intersegment eliminations. For the three months ended March 31, 2022, approximately 24.4% of revenue was generated from the cultivation (wholesale) business and approximately 75.6% from the retail business.

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 March 31, 2023 and December 31, 2022, the Company had total current liabilities of \$363,386 and \$386,645, respectively. As of March 31, 2023 and December 31, 2022, the Company had cash and cash equivalents of \$95,129 and \$84,851, respectively, to meet its current obligations. The Company had a working capital deficit of \$(47,629) as of March 31, 2023, an increase of working capital of \$20,741 as compared to December 31, 2022. This increase in working capital was primarily driven by a \$10,925 decrease in inventory and a \$10,278 increase in cash and cash equivalents.

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 three months ended March 31, 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 March 31, 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 pays 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 March 31, 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 March 31, 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 three months ended March 31, 2023 and 2022 were as follows:

	Three Months Ended March 31,		
	2023	2022	\$ Change
Net Cash Provided by Operating Activities	\$ 16,862	\$ 34,457	\$ (17,595)
Net Cash Used in Investing Activities	(7,225)	(86,743)	79,518
Net Cash Provided by Financing Activities	642	92,805	(92,163)

Cash flows from Operating Activities. During the three months ended March 31, 2023 and 2022, the Company had net cash inflows of \$16,862 and \$34,457, respectively. The \$17,595 decrease was mainly driven by a decrease in inventory of \$(10,925) related to the standardization of the Company's inventory costing model and a \$5,018 decrease in income tax payable due to tax payments made during the three months ended March 31, 2023.

Cash Flows from Investing Activities. During the three months ended March 31, 2023 and 2022, the Company had net cash outflows of \$(7,225) and \$(86,743), respectively. The \$79,518 decrease in net cash outflows during the three months ended March 31, 2023 compared to the three months ended March 31, 2022 is primarily due to a decrease in acquisition of business, net of cash acquired of \$(500) during the three months ended March 31, 2023, compared to \$(60,082) for the three months ended March 31, 2022. In addition, the decrease was driven by purchases of property, plant and equipment of \$(8,555) during the three months ended March 31, 2023, compared to purchases of property, plant and equipment of \$(48,300) during the three months ended March 31, 2022.

Cash Flows from Financing Activities. During the three months ended March 31, 2023 and 2022, the Company had net cash inflows of \$642 and \$92,805, respectively. The \$(92,163) decrease was primarily driven by proceeds from the issuance of debt of \$23,710 during the three months ended March 31, 2023 when compared to \$102,660 during the three months ended March 31, 2022. The decrease in cash provided is also driven by principal repayments of debt for the three months ended March 31, 2023 of \$(22,759) when compared to \$(6,870) for the three months ended March 31, 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

Our disclosure controls and procedures are designed to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in SEC 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 timely decisions regarding required disclosure. As required by Rule 13a-15(b) and Rule 15d-15(b) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated, as of March 31, 2023, the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded at that time that our disclosure controls and procedures were not effective due to material weaknesses in our internal control environment and information and communication. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

We previously identified accounting errors that were deemed to be material weaknesses and resulted in the restatement of prior issued financial statements for the quarter ended March 31, 2022. 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, which have not been remediated. Please see the Notes to the Unaudited Interim Consolidated Financial Statements, *Note 1 - Overview and Basis of Presentation*.

Any deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses may require prospective or retrospective changes to our consolidated financial statements, or identify other areas for further attention or improvement. If we fail to remediate these material weaknesses or experience additional material weaknesses in the future or fail to otherwise maintain effective financial reporting systems and processes, we may be unable to accurately and timely report our financial results or comply with the requirements of being a public company. The processes and systems we have developed to date may not be adequate, and we cannot assure that the measures we have taken, and are continuing to implement, will be sufficient to avoid potential future material weaknesses. Moreover, we cannot be certain that we will not in the future have additional material weaknesses in our internal control over financial reporting, or that we will successfully remediate any that we find.

As part of improving the effectiveness of our disclosure controls and procedures, including complying with Section 404(a) of SOX regarding internal control over financial reporting, we have restructured the accounting function which includes the creation of new accounting positions, reallocating responsibilities of job functions, implementing new and modified reporting and testing procedures, and we have hired, and will continue to hire, additional internal personnel and third-party accounting support services. The U.S. labor market is competitive, and the professionals and other personnel we desire to hire are sought after by other companies and accounting firms. In addition, because our business involves cannabis, which is classified as federally illegal, many accounting firms and other third-party service providers as well as some individuals are unwilling to work or provide services for us. We may not be able to attract, hire and retain enough qualified management and accounting personnel and third-party service providers to enable us to implement and maintain sufficient internal control over financial reporting and comply with other public company requirements.

As described above, management has developed and is implementing a plan to remediate the effectiveness of our disclosure controls and procedures, including designing and implementing improved processes and internal controls with the intent of ensuring proper application of relevant accounting guidance. The Company continues to take steps to enhance the control environment and management will continue to improve and evaluate these controls.

We believe, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, within a company have been detected.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company may be subject to legal proceedings, claims, investigations and government inquiries in the ordinary course of business. The Company has received, and may in the future continue to receive, claims from third parties.

There have been no material developments with respect to the legal proceedings with GGH previously disclosed in Item 3 of the Form 10-K.

ITEM 1A. RISK FACTORS.

Item 1A. “Risk Factors” in our Form 10-K filed with the SEC on March 30, 2023, includes a discussion of our risk factors. There have been no material changes from the risk factors described in the Form 10-K. We may disclose changes to such risk factors or disclose additional risk factors from time to time in our future SEC filings.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

Subordinate Voting Shares

On January 10, 2023, pursuant to a merger agreement, the Company issued 1,625,546 Subordinate Voting Shares as additional consideration to the holder of equity interests in connection with the Company’s acquisition of Connecticut Pharmaceutical Solutions Holdings, LLC, which owns a cannabis license for, and is engaged in, the cultivation of cannabis in Connecticut. All of such Subordinate Voting Shares were issued in reliance upon the exemptions from registration afforded by Section 4(a)(2) and Rule 506(b) promulgated under the Securities Act of 1933, because (i) the issuances were not made by general solicitation or advertising and (ii) the issuances were made only to “accredited investors” (as such term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933).

Proportionate Voting Shares

On February 14, 2023 the Company converted 449 Proportionate Voting Shares into 44,997 Subordinate Voting Shares.

On March 24, 2023 all outstanding Proportionate Voting Shares were converted into Subordinate Voting Shares. There were 133,373 Proportionate Voting Shares that converted into 13,337,286 Subordinate Voting Shares and no Proportionate Voting Shares are outstanding.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

The Board of Directors of the Company has established June 22, 2023 as the date of the Company’s 2023 annual general and special meeting of shareholders (the “2023 Annual Meeting”). The close of business on April 27, 2023 is the record date for determining shareholders of the Company who are entitled to vote at the 2023 Annual Meeting, including any adjournments or postponements of the 2023 Annual Meeting.

The Company’s 2022 annual general meeting of shareholders (the “2022 Annual Meeting”) was held on August 3, 2022. Given the date of the 2023 Annual Meeting is being changed by more than 30 days from the one-year anniversary of the 2022 Annual Meeting, the Company is informing shareholders of this change in accordance with Rule 14a-5(f) under the Exchange Act.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
3.1*	Articles of Verano Holdings Corp., dated February 11, 2021 (filed as Exhibit 3.1 to our Registration Statement on Form 10 filed on April 26, 2022 (File No. 000-56342) and incorporated herein by reference).
3.2*	Notice of Articles of Verano Holdings Corp., dated February 11, 2021 (filed as Exhibit 3.2 to our Registration Statement on Form 10 filed April 26, 2022 (File No. 000-56342) and incorporated herein by reference).
31.1**	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2**	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1***	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2***	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL Document)
*	Previously filed.
**	Filed herewith
***	Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 10, 2023

VERANO HOLDINGS CORP.

By: /s/ George Archos

Name: George Archos

Title: Chief Executive Officer

By: /s/ Brett Summerer

Name: Brett Summerer

Title: Chief Financial Officer

**CERTIFICATE OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, George Archos, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Verano Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2023

/s/ George Archos

George Archos

(Principal Executive Officer)

**CERTIFICATE OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brett Summerer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Verano Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2023

/s/ Brett Summerer

Brett Summerer

(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION
906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Verano Holdings Corp. (the “Company”) for the three months ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, George Archos, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2023

/s/ George Archos

George Archos

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION
906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Verano Holdings Corp. (the “Company”) for the three months ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brett Summerer, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2023

/s/ Brett Summerer

Brett Summerer

(Principal Financial Officer)