

VERANO HOLDINGS CORP.

2021 ANNUAL REPORT

To the Shareholders of Verano Holdings Corp.:

This is the 2021 Annual Report of Verano Holdings Corp., a British Columbia corporation (the “*Company*”), that is being delivered to you in connection with the Annual General Meeting of Shareholders of the Company to be held on August 3, 2022.

In accordance with U.S. securities laws, this 2021 Annual Report contains the following sections of the Company’s Amendment No. 1 to Form 10 registration statement filed with the U.S. Securities and Exchange Commission on June 17, 2022 (the “*Registration Statement*”):

1. The Company’s audited consolidated financial statements for the fiscal years ended December 31, 2021, 2020 and 2019 included as part of Item 15 and in the Financial Statements of the Registration Statement.
2. Item 14 of the Registration Statement titled “Changes in and Disagreements with Accountants on Accounting and Financial Disclosure”.
3. The section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained within Item 2 of the Registration Statement.
4. Item 5 of the Registration Statement titled “Directors and Executive Officers.”
5. Item 9 of the Registration Statement titled “Market Price of and Dividends on the Registrant’s Common Equity and Related Stockholder Matters.”

In accordance with U.S. securities laws, this 2021 Annual Report also contains a Performance Graph in accordance with Rule 14a-3(b)(9) of the Securities Exchange Act of 1934, as amended.

Sincerely,

George Archos
Chief Executive Officer

July 5, 2022



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VERANO HOLDINGS CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
December 31, 2021, 2020 & 2019**

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Verano Holdings Corp.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Verano Holdings Corp. (the Company) as of December 31, 2021, the related consolidated statements of operations, changes in shareholders’ equity and cash flows, for the year then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to

be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Baker Tilly US, LLP

We have served as the Company's auditor since 2021.
Irvine, California
April 26, 2022

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Report of Independent Registered Public Accounting Firm (PCAOB Number 324)

Board of Directors and Shareholders
Verano Holdings Corp. (f.k.a. Verano Holdings LLC)

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Verano Holdings Corp. (f.k.a. Verano Holdings LLC) (the "Company") as of December 31, 2020, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for each of the two years ended December 31, 2020 and 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for each of the two years ended December 31, 2020 and 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be

independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Macias Gini & O'Connell LLP

We have served as Verano Holdings Corp.'s auditor since 2016.
Chicago, Illinois
April 26, 2022

Macias Gini & O'Connell LLP
155 North Wacker Drive, Suite 4350
Chicago, IL 60606

www.mgocpa.com

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VERANO HOLDINGS CORP.

Consolidated Balance Sheets

As of December 31, 2021 & 2020

(\$ in Thousands except share and per share amounts)

	2021	2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 99,118	\$ 16,402
Accounts Receivable, net	17,410	7,270
Notes Receivable	285	3,945
Due from Related Parties	-	108
Inventory	137,634	37,354
Prepaid Expenses and Other Current Assets	19,528	6,169
Total Current Assets	273,975	71,248
Property, Plant and Equipment, net	452,232	144,182
Right Of Use Assets, net	61,346	11,784
Intangible Assets, net	1,379,913	72,419
Goodwill	368,130	16,029
Investment in Associates	7,628	11,547
Deposits and Other Assets	2,499	2,442
TOTAL ASSETS	\$ 2,545,723	\$ 329,651

LIABILITIES AND SHAREHOLDERS' EQUITY**LIABILITIES**

Current Liabilities:			
Accounts Payable	\$	45,172	\$ 18,293
Accrued Liabilities		42,150	13,886
Income Tax Payable		153,850	41,158
Current Portion of Lease Liabilities		6,563	1,803
Current Portion of Notes Payable		13,771	7,814
Contingent Consideration Payable		208,349	33,290
Due to Related Parties		-	45
		<u> </u>	<u> </u>
Total Current Liabilities		469,855	116,289
Long-Term Liabilities:			
Deferred Revenue		1,183	2,036
Notes Payable, net of Current Portion		276,154	32,480
Lease Liabilities, net of Current Portion		56,812	10,624
Deferred Income Taxes		262,984	14,824
		<u> </u>	<u> </u>
Total Long-Term Liabilities		597,133	59,964
TOTAL LIABILITIES	\$	<u>1,066,988</u>	<u>\$ 176,253</u>
SHAREHOLDERS' EQUITY		1,475,784	147,161
NON-CONTROLLING INTEREST		<u>2,951</u>	<u>6,237</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	<u>2,545,723</u>	<u>\$ 329,651</u>

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

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VERANO HOLDINGS CORP.**Consolidated Statements of Operations****For the Years Ended December 31, 2021, 2020 & 2019***(\$ in Thousands except share and per share amounts)*

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues, net of discounts	\$ 737,850	\$ 228,530	\$ 65,968
Cost of Goods Sold, net	<u>403,287</u>	<u>92,961</u>	<u>29,928</u>
Gross Profit	<u>334,563</u>	<u>135,569</u>	<u>36,040</u>
Operating Expenses:			
General and Administrative	100,903	23,838	29,692
Sales and Marketing	8,644	919	926
Salaries and Benefits	78,634	16,228	6,231
Depreciation and Amortization	<u>41,784</u>	<u>2,278</u>	<u>2,288</u>
Total Operating Expenses	<u>229,965</u>	<u>43,263</u>	<u>39,137</u>

Income (Loss) from Investments in Associates	3,085	2,692	(456)
Income (Loss) From Operations	107,683	94,998	(3,553)
Other Income (Expense):			
(Loss) on Disposal of Property, Plant and Equipment	(1,085)	(1,655)	(1,546)
(Loss) on Deconsolidation	-	(189)	(3,087)
Gain on Previously Held Equity Interest	-	457	-
Amortization of Debt Issuance Costs for Warrant	-	(3,018)	(425)
Amortization of Convertible Debt Discount	-	(2,912)	(364)
Other Income (Expense), net	9,632	(701)	94
Interest Income (Expense), net	(24,270)	(4,528)	390
Total Other Expense	(15,723)	(12,546)	(4,938)
Net Income (Loss) Before Provision for Income Taxes and Non-Controlling Interest	91,960	82,452	(8,491)
Provision For Income Taxes	(104,127)	(42,296)	(10,333)
Net Income (Loss) Before Non-Controlling Interest	(12,167)	40,156	(18,824)
Net Income (Loss) Attributable to Non-Controlling Interest	2,509	1,755	(551)
Net Income (Loss) Attributable to Verano Holdings Corp.	<u>\$ (14,676)</u>	<u>\$ 38,401</u>	<u>\$ (18,273)</u>
Net Income per share – basic	(0.05)	0.15	(0.07)
Net Income per share – diluted	(0.05)	0.14	(0.07)
Basic – weighted average shares outstanding	290,443,432	263,919,366	261,432,115
Diluted – weighted average shares outstanding	290,443,432	270,719,280	261,432,115

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

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VERANO HOLDINGS CORP.
Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2021, 2020 and 2019
(in Thousands)

	LLC Membership Units	Pubco Shares (as converted)	Share Capital	Accumulated Earnings (Deficit)	Non- Controlling Interest	Total
Balance as of January 1, 2019	253,138	-	\$112,071	\$ -	\$ 2,801	\$114,872
Adoption of ASC 842, <i>Leases</i>	-	-	-	(252)	-	(252)

Contributions from Members	-	-	5,906	-	71	5,977
Warrants issued for Notes Payable	7,421	-	5,449	-	-	5,449
Issuance of Warrants	987	-	-	-	-	-
Issuance of Beneficial Conversion Notes	-	-	3,276	-	-	3,276
Non-controlling interest from acquisition	-	-	-	-	8,171	8,171
Transfer from non-controlling interest to controlling	-	-	688	-	(688)	-
Distributions to members	-	-	-	(6,632)	(9)	(6,641)
Net Income (Loss)	-	-	-	(18,273)	(551)	(18,824)
Balance as of December 31, 2019	<u>261,546</u>	<u>-</u>	<u>\$127,390</u>	<u>\$ (25,157)</u>	<u>\$ 9,795</u>	<u>\$112,028</u>
Balance as of January 1, 2020	261,546	-	\$127,390	\$ (25,157)	\$ 9,795	\$112,028
Purchase of Non-controlling interest	-	-	-	(3,950)	(2,950)	(6,900)
Deconsolidation of subsidiary	-	-	-	-	79	79
Conversion of Warrants	18,354	-	10,524	-	-	10,524

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

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VERANO HOLDINGS CORP.
Statements of Changes in Shareholders' Equity (Continued)
For the Years Ended December 31, 2021, 2020 and 2019
(in Thousands)

	<u>LLC Membership Units</u>	<u>Pubco Shares (as converted)</u>	<u>Share Capital</u>	<u>Accumulated Earnings (Deficit)</u>	<u>Non- Controlling Interest</u>	<u>Total</u>
Derecognition of NCI	-	-	-	-	(2,442)	(2,442)
Distributions to members	-	-	-	(47)	-	(47)
Net Income (Loss)	-	-	-	38,401	1,755	40,156
Balance as of December 31, 2020	<u>279,900</u>	<u>-</u>	<u>\$ 137,914</u>	<u>\$ 9,247</u>	<u>\$ 6,237</u>	<u>\$ 153,398</u>
Balance as of January 1, 2021	279,900	-	\$ 137,914	\$ 9,247	\$ 6,237	\$ 153,398

RTO-related issuances, net	-	-	652,217	-	-	652,217
Issuance of Pubco shares in redemption of membership units	(279,900)	279,900	-	-	-	-
Reverse takeover (“RTO Financing”), net	-	-	95,420	-	-	95,420
Purchase of Non-controlling interest	-	-	505	(6,975)	(5,795)	(12,265)
Share-based compensation	-	-	742	-	-	742
Issuance of shares in conjunction with acquisitions	-	-	522,120	-	-	522,120
Warrants issued and exercised	-	-	75,100	-	-	75,100
Contingent consideration & other adjustments to purchase accounting	-	-	4,170	-	-	4,170
Net Income (Loss)	-	-	-	(14,676)	2,509	(12,167)
Balance as of December 31, 2021	-	279,900	\$1,488,188	\$ (12,404)	\$ 2,951	\$1,478,735,

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

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VERANO HOLDINGS CORP.
Consolidated Cash Flow Statements
For the Years Ended December 31, 2021, 2020 and 2019
(\$ in Thousands)

	2021	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES			
Net income (loss) attributable to Verano Holdings Corp. and Subsidiaries	\$ (14,676)	\$ 38,401	\$ (18,273)
Net income (loss) attributable to non-controlling interest	2,509	1,755	(551)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	96,244	7,866	7,393
Non-cash interest expense	5,727	1,074	-
Non-cash interest income	(166)	(935)	-
Non-cash inventory step-up expense on acquisitions	80,988	-	-
Loss on disposal of property, plant and equipment	1,085	1,655	1,546
Loss on disposition of VIE	-	2,202	-
Gain on previously held equity interest	-	(458)	-
Bad debt expense	1,701	300	331
Amortization of loan issuance costs – warrants	-	3,018	424

Amortization of debt issuance costs	2,566	235	124
Amortization of convertible debt discount	-	2,912	364
Write-off of note receivable	14	300	-
Loss on deconsolidation of subsidiary	-	159	2,275
Loss (Income) from underlying investees	(3,006)	(2,608)	456
Contingent consideration compensation	4,170	-	-
Loss on share issuance	1,207	-	-
(Decrease) in fair value of contingent consideration	(13,676)	-	-
Stock based compensation	742	-	-
Derecognition of deferred rent	-	-	104
Changes in operating assets and liabilities:			
Accounts receivable	(6,673)	(2,506)	(2,622)
Inventories	(59,506)	(22,873)	(8,368)
Prepaid expenses and other current assets	(6,252)	(3,043)	(1,657)
Deposits and other assets	8,553	3,008	(1,795)
Accounts payable	9,920	1,777	4,221
Accrued liabilities	1,670	10,508	1,263
Change in Lease Liabilities	(7,743)	(1,717)	(1,479)
Income tax payable	108,790	29,952	10,420
Due to related parties, net	(45)	(833)	(513)
Deferred taxes	(32,009)	(557)	(323)
Deferred revenue	(937)	2,035	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	181,197	71,627	(6,660)
CASH FLOW FROM INVESTING ACTIVITIES			
Cash paid in membership interest acquisition	-	-	(3,500)
Purchases of property, plant and equipment	(141,265)	(60,153)	(59,041)
Proceeds from disposal of assets	1,894	-	-
Advances to related parties	108	145	-
Purchases of intangible assets	(8,374)	(7,010)	(7,237)
Purchase of NCI	(7,840)	-	-
Acquisition of business, net of cash acquired	(309,815)	(21,902)	61
Payment of acquisition price payable	-	(1,544)	-
Cash paid in deconsolidation of subsidiary	-	-	(59)
Purchase of interest in investment in associates	(3,350)	-	(9,913)
Dividend received from investments in associates	10,275	1,867	571
Issuance of note receivable	(147)	(186)	(5,000)
Proceeds from note receivable	4,215	1,875	-
Interest received on note receivable	142	-	-
NET CASH (USED IN) INVESTING ACTIVITIES	(454,157)	(86,908)	(84,118)

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Contributions from members	-	-	5,977
Distributions to members	-	(46)	(6,102)
Proceeds from exercise of warrants	-	2,191	2,173
Proceeds from issuance of notes payable	224,725	33,943	21,613
Principal repayments of notes payable	(10,757)	(9,754)	(4,353)
Debt issuance costs paid	(8,812)	(1,068)	(200)
Proceeds from sale of Property, Plant & Equipment	-	-	5,000
Proceeds received from RTO financing	75,420	-	-
Cash received in warrant private placement	75,100	-	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>355,676</u>	<u>25,266</u>	<u>24,108</u>
NET INCREASE (DECREASE) IN CASH	82,716	9,985	(66,670)
CASH, BEGINNING OF PERIOD	<u>16,402</u>	<u>6,417</u>	<u>73,087</u>
CASH, END OF PERIOD	<u>\$ 99,118</u>	<u>\$ 16,402</u>	<u>\$ 6,417</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest (received) paid	<u>\$ 18,709</u>	<u>\$ 1,761</u>	<u>\$ (218)</u>
Cash paid for taxes	<u>\$ 27,962</u>	<u>\$ 10,237</u>	<u>\$ 569</u>

NONCASH INVESTING AND FINANCING ACTIVITIES

Accrued capital expenditures	<u>\$ 8,512</u>	<u>\$ 1,860</u>	<u>\$ 6,633</u>
Issuance of note receivable related to sale of property, plant, and equipment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,000</u>
Distributions receivable from investment in associate	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83</u>
Issuance of shares under business combinations	<u>\$ 1,148,127</u>	<u>\$ -</u>	<u>\$ -</u>
Acquisitions			
Tangible and Intangible assets acquired, net of cash	\$ 1,638,726	\$ 50,925	\$ 4,394
Liabilities assumed	(354,933)	(17,872)	(1,055)
Contingent consideration payable	(1,324,914)	(21,186)	(1,000)
Issuance of note payable	-	(350)	-
Goodwill	350,936	10,965	-
Noncontrolling interest from acquisitions	-	-	(2,400)
Previously held equity interest	-	(580)	-
	<u>309,815</u>	<u>21,902</u>	<u>(61)</u>

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

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021, 2020 and 2019
(\$ in Thousands except shares and per share amounts)

1. NATURE OF OPERATIONS

References herein to “the Company,” or “Verano,” are intended to mean Verano Holdings Corp. and its subsidiaries, licensees, and managed entities.

Verano is a vertically integrated cannabis operator that focuses on limited-licensed markets in the United States. 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 thirteen state markets (Arizona, Arkansas, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Nevada, New Jersey, Ohio, Pennsylvania, and West Virginia).

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

On February 11, 2021, the Company completed a reverse takeover transaction (“RTO”) as further described in Note 3. Thereafter, the Company’s Class A Subordinate Voting Shares (the “Subordinate Voting Shares”) were listed on the Canadian Securities Exchange (the “CSE”) under ticker symbol “VRNO” and subsequently began trading in the U.S. on the OTCQX, part of the OTC Markets Group, under the ticker “VRNOF”.

The Company’s corporate headquarters is located at 415 North Dearborn St., Suite 400, Chicago, Illinois 60654.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation and Statement of Compliance

The consolidated financial statements for the years ended December 31, 2021, December 31, 2020 and December 31, 2019, have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”).

(b) Basis of Measurement

The consolidated financial statements have been prepared on the going concern basis, under the historical cost convention, except for certain financial instruments that are measured at fair value as described herein.

(c) Functional and Presentation Currency

The Company’s functional currency, as determined by management, is the United States (“U.S.”) dollar. These consolidated financial statements are presented in U.S. dollars.

(d) Basis of Consolidation

The 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 Accounting Standards Codification (“ASC”) 810 *Consolidation*. All transactions and balances between these entities have been eliminated upon consolidation.

VERANO HOLDINGS CORP.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021, 2020 and 2019
(\$ in Thousands except shares and per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Verano Holdings Corp. has owned subsidiaries and entities over which the Company has control, that are included in these consolidated financial statements for the year ended December 31, 2021. The ownership percentages set forth in the tables below may not necessarily match state regulatory records as the below assumes for purposes of presentation the approval of certain pending, planned, or anticipated state regulatory transfers. The Company will update its regulatory filings in those states where it is permitted to do so as soon as practical and will continue to operate the entities below, where and as applicable, in accord with current practice and in compliance with applicable laws and regulations.

Subsidiaries

Entity Name	Jurisdiction	Purpose	Percentage Interest
12395 North Miami, LLC	Florida	Real Estate holding company	100%
130 Monroeville, LLC	Pennsylvania	Real Estate holding company	100%
16 Magothy Road Beach, LLC	Maryland	Real Estate holding company	100%
1728 & 52 Old York Road, LLC	Pennsylvania	Real Estate holding company	100%
2000-2015 W. 3 rd Street, LLC	Arizona	Real Estate holding company	100%
257 Wynnewood, LLC	Pennsylvania	Real Estate holding company	100%
270 Cranberry, LLC	Pennsylvania	Real Estate holding company	100%
3510 Ocala, LLC	Florida	Real Estate holding company	100%
4450 New Haven, LLC	Florida	Real Estate holding company	100%
4674 JAX, LLC	Florida	Real Estate holding company	100%
5409 S. Power Road, LLC	Arizona	Real Estate holding company	100%
7221 Jessup, LLC	Maryland	Real Estate holding company	100%
783 Butterfield Road, LLC	Illinois	Real Estate holding company	100%
799 Washington, LLC	Pennsylvania	Real Estate holding company	100%
A&T SPV II LLC	Texas	Holding company	100%
AGG Wellness, LLC	Maryland	Dispensary	100%
AGOZ Redevelopment, LP	Pennsylvania	Real Estate holding company	100%
Agri-Kind, LLC	Pennsylvania	Cultivation	100%
Agronomed Biologics Holdings Inc.	Pennsylvania	Holding company	100%
Agronomed Biologics LLC	Pennsylvania	Cultivation/Dispensary	100%
Agronomed Holdings, Inc.	Pennsylvania	Holding company	100%

Agronomed IP LLC	Pennsylvania	Intellectual property	15%
Agronomy Holdings, LLC	Florida	Holding company	100%
Agronomy Innovations LLC	Arizona	Management company	100%
Albion MM, LLC	Illinois	Real Estate holding company	100%
Alternative Medical Enterprises LLC	Delaware	Holding company	100%
AltMed, LLC	Florida	Holding company	100%
Ataraxia, LLC	Illinois	Cultivation	100%
AZ MM Logistics, LLC	Arizona	Logistics company	100%
BISHCO LLC	Arizona	Management company	100%
Branchburg Rte. 22, LLC	New Jersey	Real Estate holding company	100%
Caring Nature, LLC	Connecticut	Dispensary	100%
Cave Creek RE, LLC	Arizona	Real Estate holding company	100%
Chicago Natural Treatment Solutions, LLC	Delaware	Holding company	100%
Connecticut Pharmaceutical Solutions, Inc.	Delaware	Holding company	100%
Connecticut Pharmaceutical Solutions, LLC	Connecticut	Cultivation	100%

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VERANO HOLDINGS CORP.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021, 2020 and 2019

(\$ in Thousands except shares and per share amounts)

Entity Name	Jurisdiction	Purpose	Percentage Interest
CTPharma Real Estate Inc.	Connecticut	Real Estate holding company	100%
CTPharma Research Solutions, LLC	Delaware	Research business	10%
Cultivation Corner, LLC	Arizona	Management company	100%
DGV Group, LLC	Delaware	California joint venture	62.50%
Eastern and Pebble, LLC	Florida	Real Estate holding company	100%
FAD Investment Group, LLC	Illinois	Holding company	100%
FGM Processing, LLC	Maryland	Processor	100%
Four Daughters Compassionate Care, Inc.	Massachusetts	Cultivation/Dispensary	100%
Freestate Wellness, LLC	Maryland	Cultivation/Dispensary	100%
Glass City Alternatives, LLC	Ohio	Dispensary	100%
GLD Holdings, LLC	Delaware	Holding company	100%
Green RX, LLC	Ohio	Dispensary	100%
GVB Holding Group LLC	Pennsylvania	Holding company	100%
Healthway Services of Illinois, LLC	Illinois	Holding company	100%
ILDISP, LLC ¹	Illinois	Holding company	50%
ILMM Logistics, LLC	Illinois	Logistics company	100%
Local Dispensaries, LLC	Pennsylvania	Dispensary	100%
MA MM Logistics, LLC	Illinois	Logistics company	100%
Mad River Remedies, LLC	Ohio	Dispensary	100%
Maryland Natural Treatment Solutions, LLC	Maryland	Dispensary	100%
MD MM Logistics, LLC	Maryland	Logistics company	100%
MDCult, LLC	Maryland	Holding company	100%
Mother Grows Best, LLC	Ohio	Cultivation	100%
Mother Know's Best, LLC	Ohio	Dispensary	100%

MUVHealth LLC	Arizona	Holding company	100%
NH Medicinal Dispensaries, LLC ¹	Illinois	Dispensary	50%
NJ MM Logistics, LLC	New Jersey	Logistics company	100%
NNTS Holdings, LLC	Delaware	Holding company	100%
NSE Pennsylvania LLC	Pennsylvania	Dispensary	100%
NuTrae, LLC	Florida	Intellectual property	100%
Nuuvn Holdings, LLC	Delaware	Holding company	100%
NV MM Logistics, LLC	Nevada	Logistics company	100%
OH MM Logistics, LLC	Ohio	Logistics company	100%
Ohio Natural Treatment Solutions, LLC	Delaware	Management company	100%
PA MM Logistics, LLC	Pennsylvania	Logistics company	100%
Plants of Ruskin GPS, LLC	Delaware	Holding company	100%

¹ **ILDISP, LLC and NH Medicinal Dispensaries, LLC:** Company affiliate Ataraxia has a 50% membership interest share of ILDISP, which owns 100% interest in NH Medicinal Dispensaries. As such, affiliate Ataraxia owns a 50% interest in NH Medicinal Dispensaries. NH Medicinal Dispensaries holds two licenses which are associated with two dispensaries: The Clinic Effingham and Zen Leaf Charleston. Due to the nature of the extent of control the Ataraxia exercises over each dispensary, the Company recognizes The Clinic Effingham as an equity-method investment and fully consolidates Zen Leaf Charleston.

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VERANO HOLDINGS CORP.

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Entity Name	Jurisdiction	Purpose	Percentage Interest
Plants of Ruskin, LLC	Florida	Cultivation/Dispensary	100%
Prospect Heights RE, LLC	Illinois	Real Estate holding company	100%
Redfish Holdings, Inc.	Maryland	Holding company	100%
RedMed Holdings, LLC	Delaware	Holding company	100%
RedMed, LLC	Delaware	Holding company	100%
RVC 360, LLC	Delaware	Real Estate holding company	100%
Saint Chicago Holdings, LLC	Delaware	Holding company	100%
SG1 LLC	Delaware	Holding company	100%
SW Merger Sub, Inc.	Nevada	Acquisition subsidiary	100%
TAB Management Group, LLC	Illinois	Holding company	100%
TAMM, LLC	Illinois	Holding company	100%
TerraVida Holistic Centers LLC	Pennsylvania	Dispensary	100%
The Healing Center LLC	Pennsylvania	Dispensary	100%
TOKI Veterans Group, LLC	Illinois	Holding company	100%
Verano Arizona Holdings, LLC	Delaware	Holding company	100%
Verano Arizona II, LLC	Delaware	Management company	100%
Verano Arizona, LLC	Delaware	Management company	100%
Verano Arlington, LLC	Delaware	Real Estate holding company	100%
Verano Connecticut, LLC	Delaware	Holding company	100%
Verano El Dorado, LLC	Arkansas	Real Estate holding company	100%
Verano Evanston, LLC	Illinois	Holding company	100%
Verano Four Daughters Holdings, LLC	Delaware	Holding company	100%
Verano Highland Park, LLC	Illinois	Holding company	100%

Verano Holdings, LLC	Delaware	Holding company	100%
Verano Holdings USA Corp.	Delaware	Holding company	100%
Verano Illinois, LLC	Illinois	Holding company	100%
Verano IP, LLC	Delaware	Intellectual property	100%
Verano Michigan, LLC	Delaware	Management company	100%
Verano NJ Holdings, LLC	Delaware	Holding company	100%
Verano NSE Holdings, LLC	Delaware	Holding company	100%
Verano Oklahoma, LLC	Delaware	Holding company	100%
Verano Technologies, LLC	Delaware	Holding company	100%
Verano THC Holdings, LLC	Delaware	Holding company	100%
VH MRR, LLC	Ohio	Holding company	100%
VHGA Holdings, LLC	Delaware	Holding company	100%
VHGG Holdings, LLC	Delaware	Holding company	100%
VHGG Real Estate Holdings, LLC	Delaware	Real Estate holding company	100%
VHGRX Holdings, LLC	Delaware	Holding company	100%
VHMD Processor, LLC	Delaware	Processor	100%
VZL Staffing Services, LLC	Illinois	Staffing company	100%
Willow Brook Wellness, LLC	Connecticut	Dispensary	100%
Zen Leaf Retail, LLC	Maryland	Holding company	100%
Zen Leaf Technologies, LLC	Delaware	Management company	100%
ZenNorth, LLC	Delaware	Holding company	100%
ZNN Holdings, LLC	Delaware	Holding company	100%

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VERANO HOLDINGS CORP.

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For the Years Ended December 31, 2021, 2020 and 2019

(\$ in Thousands except shares and per share amounts)

Controlled Entities

<u>Entity Name</u>	<u>Jurisdiction of Organization</u>	<u>Purpose</u>	<u>Percentage Interest</u>
2900 Lone Mountain, LLC	Nevada	Real Estate holding company	100%
4444 W. Craig Road, LLC	Nevada	Real Estate holding company	100%
AZGM 3, Inc.	Arizona	Cultivation/Dispensary	100%
Buchanan Development, LLC	Michigan	Dispensary	100%
Canna Cuzzos, LLC	Maryland	Dispensary	40%
ChiVegs Real Estate, LLC	Nevada	Real Estate holding company	100%
EIJNO, LP	Illinois	Holding company	100%
Elevele LLC	Illinois	Dispensary	100%
Fort Consulting, LLC	Arizona	Cultivation/Dispensary	100%
Healthway Services of West Illinois, LLC	Illinois	Dispensary	100%
Lone Mountain Partners, LLC	Nevada	Cultivation	100%
Mikran, LLC	Maryland	Dispensary	100%
MME Aurora Retail, LLC	Illinois	Dispensary	100%
MME Evanston Retail, LLC	Illinois	Dispensary	100%
MME IL Holdings, LLC	Illinois	Holding company	100%
Natural Treatment Solutions, LLC	Nevada	Holding company	100%
NatureX, LLC	Nevada	Dispensary	100%

Nevada Natural Treatment Solutions, LLC	Nevada	Holding company	100%
Noah's Ark, LLC	Arkansas	Dispensary	100%
Patient Alternative Relief Center	Arizona	Cultivation/Dispensary	100%
Perpetual Healthcare, Inc.	Arizona	Cultivation/Dispensary	100%
Saint Chicago, LLC	Illinois	Holding company	100%
SPSLE Corp.	Illinois	Holding company	100%
The Herbal Care Center, Inc.	Illinois	Dispensary	100%
The M Group, LLC	Maryland	Holding company	40%
The Medicine Room, LLC	Arizona	Dispensary	100%
V Waldorf, LLC	Maryland	Holding company	100%
Vending Logistics LLC	Arizona	Dispensary	100%
Verano MI2, LLC	Michigan	Holding company	100%
Verano MO Holdings, LLC	Delaware	Holding company	100%
Verano MO, LLC	Missouri	Holding company	100%
Verano NJ LLC	New Jersey	Cultivation/Dispensary	100%
Verano WV, LLC	West Virginia	Dispensary	100%
VMO Processing, LLC	Missouri	Processor	100%
VMO Retail, LLC	Missouri	Dispensary	100%
West Capital, LLC	Illinois	Real Estate holding company	100%

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VERANO HOLDINGS CORP.

Notes to the Consolidated Financial Statements

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(\$ in Thousands except shares and per share amounts)

(e) VIE's & Non-controlling Interests

Non-controlling interests ("NCI") represent equity interests owned by outside parties. NCI may be initially measured at fair value or at the NCI's proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. The share of net assets attributable to NCI are presented as a component of equity. Their share of net income or loss and comprehensive income or loss is recognized directly in equity.

Total comprehensive income or loss of subsidiaries is attributed to the shareholders of the Company and to the NCI, even if this results in the NCI having a deficit balance.

(f) Cash and Cash Equivalents

Cash and cash equivalents include cash deposits in financial institutions, other deposits that are readily convertible into cash, with original maturities of three months or less, and cash held at retail locations.

(g) Accounts Receivable and Expected Credit Loss

Accounts receivable are recorded at the invoiced amount and do not bear interest. Expected credit loss reflects the Company's estimate of amounts in its existing accounts receivable that may not be collected due to customer claims or customer inability or unwillingness to pay. Collectability of trade receivables is reviewed on an ongoing basis. The expected credit loss is determined based on a combination of factors, including the Company's risk assessment regarding the credit worthiness of its customers, historical collection experience and length of time the receivables are past due. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes

to mitigate credit risk. As of December 31, 2021 and 2020, the allowance for credit losses were \$356 and \$300, respectively. There was no allowance for doubtful accounts as of December 31, 2019.

(h) Inventories

Inventories of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Cultivated inventories include direct and indirect costs of production, including costs of materials, labor and depreciation related to cultivation. Such costs are capitalized as incurred, and subsequently included within cost of goods sold within the consolidated statements of operations, at the time the products are sold. Net realizable value is determined as the estimated selling price in the ordinary course of business, less reasonable costs associated with the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at lower of cost and net realizable value.

In calculating final inventory values, management is required to compare the inventory cost to estimated net realizable value.

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VERANO HOLDINGS CORP.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021, 2020 and 2019

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Investments in Associates

Associates are all entities over which the Company has significant influence, but not control, generally accompanying an ownership of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognized at cost. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

Dilution gains and losses arising in investments in associates are recognized in the consolidated statements of operations.

The Company assesses annually whether there is any objective evidence that its interest in associates is impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less costs of disposal or value in use) and charged to the consolidated statement of operations. If the financial statements of an associate are prepared on a date different from that used by the Company, adjustments are made for the

effects of significant transactions or events that occur between that date and the date of these consolidated financial statements. There were no impairment charges recorded for the years ended December 31, 2021, 2020 and 2019.

(j) Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. The Company's estimated depreciable lives of operating assets and facilities are as follows:

Land	Not Applicable
Building	30 years
Construction in Progress ("CIP")	Not Applicable
Leasehold Improvements	Shorter of: remaining lease term or 10 years
Tools & Equipment	7 years
Kitchen & Lab Equipment	7 years
Other Machinery & Equipment	7 years
Furniture & Fixtures	7 years
Electronic & Security Equipment	5 years
Vehicles	7 years
Land Improvements	15 years

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VERANO HOLDINGS CORP.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021, 2020 and 2019

(\$ in Thousands except shares and per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate. An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the Consolidated Statements of Operations in the year the asset is derecognized.

Depreciation of property, plant and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Property, plant and equipment classified as construction in progress are transferred when placed in service, at which time depreciation of the asset begins.

(k) Intangible Assets

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 at the acquisition date. Amortization periods of assets with finite lives are based on management's estimates at the date of acquisitions. Intangible assets with finite lives are amortized over their estimated useful lives. The estimated useful lives, residual values and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively. The Company did not record any impairment losses for the years ended December 31,

2021, 2020 and 2019. Amortization periods of assets with finite lives are based on management's estimates at the date of acquisition and were as follows for each class of intangible asset as of December 31, 2021:

Licenses	9-15 years
Tradenames	5-10 years
Technology	5-20 years

The Company did not record any intangible asset impairment losses for the years ended December 31, 2021, 2020 and 2019.

(l) Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired.

Goodwill is tested at least annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. No such events or circumstances occurred during the years ended December 31, 2021, 2020 or 2019 and accordingly, there was no impairment for the years ended December 31, 2021, 2020 or 2019.

(m) Leased Assets

Effective January 1, 2019, the Company adopted Accounting Standards Update No. 2016-02 "Leases (Topic 842)"

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset,

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- the Company has the right to obtain substantially all of the economic benefits from use of the asset through the period of use; and
- the Company has the right to direct the use of the asset.

Such standard is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company recognizes a right-of-use ("ROU") asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs

incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. For operating leases, the right of use asset depreciation fluctuates in relation to the interest expense on the lease liability, in combination, resulting in a straight-line rent expense attribution. The estimated useful lives of the right-of-use assets are determined on the same basis as the life of the lease. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Company recognizes the lease payments associated with the leases as an expense on a straight-line basis over the lease term.

(n) Advertising

Advertising costs are charged to expense when incurred. Advertising expenses totaled \$8,643, \$919 and \$926 for the years ended December 31, 2021, 2020 and 2019, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income Taxes

Deferred taxes are provided using an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Deferred tax assets and liabilities are measured using the enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax law or tax rates is recognized in income in the period that enactment occurs.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. As discussed further in Note 12, the Company is subject to the limitations of Section 280E of the Internal Revenue Code of 1986, as amended (the "IRC").

(p) Revenue Recognition

Revenue is recognized by the Company in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). Through application of ASU 2014-09, the Company recognizes revenue upon the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company adopted ASU 2014-09 effective January 1, 2019, and the adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial statements.

In order to recognize revenue under ASU 2014-09, the Company applies the following five steps:

- Identify a customer along with a corresponding contract;
- identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer;
- allocate the transaction price to the performance obligation(s) in the contract; and
- recognize revenue when or as the Company satisfies the performance obligation(s).

Revenues from the wholesale and retail sales of cannabis are generally recognized at a point in time when control over the goods have been transferred to the customer and is recorded net of discounts. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy. Sales discounts were not material during the years ended December 31, 2021, 2020 and 2019.

Certain wholesale customers may have payment terms within a specified time-period permitted under the Company's credit policy, typically within 30 days of transfer. The Company generally requires previous payment from a customer prior to entering into another contract with such customer.

Revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer.

For the Years Ended December 31, 2021, 2020 and 2019

(\$ in Thousands except shares and per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company has customer loyalty programs in which retail customers accumulate points for each dollar of spending. These points are recorded as a contract liability until customers redeem their points for discounts on cannabis and vape 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 redemption probability of point obligation incurred, which is calculated based on a standalone selling price.

(q) Fair Value of Financial Instruments

The Company applies fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statement 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.

The individual fair values attributed to the different components of a financing transaction, derivative financial instruments, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

(r) Commitments and Contingencies

The Company is subject to lawsuits, investigations and other claims related to employment, commercial and other matters that arise out of operations in the normal course of business. Periodically, the Company reviews the status of each significant matter and assesses the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable, and the amount can be reliably estimated, such amount is recognized in other liabilities.

Contingent liabilities are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records contingent liabilities for such contracts.

Contingent consideration is measured upon acquisition and is estimated using probability weighting of potential payouts. Subsequent changes in the estimated contingent considerations from the final purchase price allocation are recognized in the Company's consolidated statement of operations.

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VERANO HOLDINGS CORP.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021, 2020 and 2019

(\$ in Thousands except shares and per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Impairment of Other Long-Lived Assets

The Company evaluates the recoverability of other long-lived assets, including property, plant and equipment, and certain identifiable intangible assets, whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable. The Company performs impairment tests of indefinite-lived intangible assets on an annual basis or more frequently in certain circumstances. Factors which could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for the overall business, a significant decrease in the market value of the assets or significant negative industry or economic trends.

When the Company determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the indicators, the assets are assessed for impairment based on the estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the carrying value of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset's carrying value over its fair value. There were no impairment charges related to intangible assets or property, plant and equipment for the years ended December 31, 2021, 2020 and 2019.

(t) Earnings (Loss) per Share

Basic earnings (loss) per share is calculated using the treasury stock method, by dividing the net earnings (losses) attributable to members by the weighted average number of shares (on an as converted basis to Subordinate Voting Shares) outstanding during each of the years 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 units and shares.

To determine diluted income per share, it is assumed 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 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 years ended December 31, 2021, 2020 and 2019 because their impact would have been anti-dilutive.

(u) Convertible Notes

The Company accounts for hybrid contracts that feature conversion options in accordance with ASC Topic 815, *Derivatives and Hedging Activities* ("ASC 815"). ASC 815 requires companies to bifurcate conversion options and account for them as freestanding financial instruments according to certain criteria. If the embedded features do not meet the criteria for bifurcation, the convertible instrument is accounted for as a

single hybrid instrument in accordance with ASC Topic 470-20, *Debt with Conversion and Other Options* (“ASC 470-20”).

The modification of warrant agreements presented as equity classified are first analyzed to ensure that such modifications do not change the classification of the instrument. If equity presentation remains proper, an adjustment to equity is recorded. If equity presentation is not preserved, the modification is evaluated under ASC 470-20.

(v) Business Combinations

In January 2017, the FASB issued Accounting Standards Update 2017-01 regarding Business Combinations (Topic 805) (“ASU 2017-01”), specifically to clarify the definition of what constitutes a business, with the

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2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. ASU 2017-01 defines a business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits. In a transaction, the Company considers inputs, processes and outputs in determining whether economic benefits may be obtained. If so, the transaction is accounted for as a business combination. Otherwise, the Company treats the transaction as an asset acquisition. The Company adopted ASU 2017-01 effective January 1, 2019, and the adoption of ASU 2017-01 did not have a material impact on the Company’s consolidated financial statements.

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of the transaction. Transaction related costs are expensed as incurred. Identifiable assets and liabilities, including intangible assets, of acquired businesses are recorded at their fair value at the date of the transaction. When the Company acquires control of a business, any previously held equity interest is also remeasured to fair value. The excess of the purchase consideration and any previously held equity interest over the fair value of identifiable net assets acquired is goodwill. If the fair value of identifiable net assets acquired exceeds the purchase consideration and any previously held equity interest, the difference is recognized in the consolidated statements of operations immediately as a gain.

Contingent consideration is measured at its transaction-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with Accounting Standards Codification (ASC) 450, *Contingencies*, as appropriate, with the corresponding gain or loss being recognized in the consolidated statement of operations.

For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Certain fair values may be estimated at the transaction date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted in subsequent periods. However, the measurement period will last for one year from the transaction date.

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

(w) Segment Reporting

An operating segment is a component of the Company for which discrete financial information is available and whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and that engages in business activities from which it may earn revenue and incur expenses. The Company has two reportable segments: (i) Cultivation (Wholesale), which is the cultivation, production and sale of cannabis to retail stores, and (ii) Retail, which is the retailing of cannabis to patients and consumers.

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2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

All revenues were generated in the United States for the years ended December 31, 2021, 2020 and 2019.

(x) Stock-Based Payments

The Company operates equity settled stock-based remuneration plans for its eligible directors, officers, and employees. 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 estimate reliably 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. For transactions with employees, 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 payments plans are ultimately recognized as an expense in statement of operations with a corresponding credit to contributed surplus, in equity.

The Company recognizes compensation expense for restricted stock units ("RSUs") and options on a straight-line basis over the requisite service period of the award. Non-market vesting conditions are included in the

assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from the previous estimate. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if share options ultimately exercised are different to that estimated on vesting.

(y) Significant Accounting Judgments, Estimates, and Assumptions

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

(i) Estimated Useful Lives and Amortization of Intangible Assets

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

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2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ii) Inventories

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

(iii) Determination of Reporting Units

The Company's assets are aggregated into two reportable segments: Cultivation (Wholesale) and Retail. For the purposes of testing impairment of goodwill, the Company has identified 12 reporting units. The Company analyzed its reporting units by first reviewing the operating segments based on the geographic areas in which the Company conducts business (or each market). The markets were then further divided into reporting units based on the market operations (retail and cultivation) which were primarily determined based on the licenses each market holds. The following represents the markets in which the Company operated as of December 31,

2021: Arizona, Arkansas, California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Jersey, Ohio, Pennsylvania and West Virginia.

(iv) Goodwill Impairment

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. To determine if the value of goodwill has been impaired, the reporting unit to which goodwill has been assigned or allocated must be valued using present value techniques. When applying this valuation technique, the Corporation relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

(v) Property, Plant and Equipment Impairment

The Company evaluates the carrying value of long-lived assets at the end of each reporting period whenever there is any indication that a long-lived asset is impaired. Such indicators include evidence of physical damage, indicators that the economic performance of the asset is worse than expected, or that the decline in asset value is more than the passage of time or normal use, or significant changes occur with an adverse effect on the Company's business. If any such indication exists, the Company estimates the recoverable amount of the asset. An asset is impaired when its carrying amount exceeds its recoverable amount. The Company measures impairment based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset. The fair value is determined primarily by using the projected future cash flows discounted at a rate commensurate with the risk involved as well as market valuations. Losses on long-lived assets to be disposed of are determined in a similar manner, except that the fair values are reduced for an estimate of the cost to dispose or abandon.

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Notes to the Consolidated Financial Statements

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2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(vi) Discount Rate for Leases

ASC 842 requires lessees to discount lease payments using the rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the Company generally uses the incremental borrowing rate when initially recording leases. Generally, the Company uses its incremental borrowing rate as the discount rate.

(vii) Business Combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its transaction-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with ASC 450, *Contingencies*, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the

total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Certain fair values may be estimated at the transaction date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the transaction date.

(viii) Consolidation

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

(ix) Expected Credit Loss

Management determines the expected credit loss by evaluating individual receivable balances and considering accounts and other receivable financial conditions and current economic conditions. Accounts receivable and financial assets recorded in other receivables are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. All receivables are expected to be collected within one year of the condensed interim consolidated statement of financial position date.

(x) Fair Value of Financial Instruments

The individual fair values attributed to the different components of a financing transaction, derivative financial instruments, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. Such valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

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2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(xi) Income Tax

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

(z) Accounting Pronouncements – Recently Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which replaces the incurred loss model with a current expected credit loss (“CECL”) model and requires consideration of a broader range of reasonable and supportable information to explain credit loss estimates. ASU 2016-13 applies to financial assets, measured at amortized cost, including loans, held-to-maturity debt securities, net investments in leases and trade accounts receivable. ASU 2016-13 must be adopted using a modified retrospective transition method through a cumulative-effect adjustment to members’ equity in the period of adoption. The Company adopted the new standard in the first quarter of the year ended December 31, 2020. The adoption of ASU 2016-13 did not have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”), which simplifies the accounting for goodwill impairment. ASU 2017-04 requires entities to record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (Step 1 under the current impairment test). The standard eliminates Step 2 from the current goodwill impairment test, which included determining the implied fair value of goodwill and comparing it with the carrying amount of that goodwill. ASU 2017-04 must be applied prospectively and is effective in the first quarter of 2020. Early adoption is permitted. The Company adopted ASU 2017-04 in the first quarter of the year ended December 31, 2020. The adoption of ASU 2017-04 did not have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 “Leases (Topic 842)” (“ASU 2016-02”), which requires lessees to record most leases on the balance sheet but recognize expense on the income statement in a manner similar to current accounting. ASU 2016-02 requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements and is effective in the first quarter of 2019.

Upon adoption of ASU 2016-02, the Company recorded right-of-use assets of \$3,065 and corresponding lease liabilities of \$3,333 with the difference of \$268 recorded in opening equity. See Note 13 for additional details.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740)—Simplifying the Accounting for Income Taxes, which is intended to simplify various aspects related to accounting for income taxes (“ASU 2019-12”). ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 was effective for the Company beginning January 1, 2021. The adoption of ASU 2019-12 did not have a material impact on the Company’s consolidated financial statements. In January 2020, the FASB issued ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) (“ASU 2020-01”), which is intended to clarify the interaction of the accounting for equity securities under Topic 321, investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted

for under Topic 815. ASU 2020-01 was effective for the Company beginning January 1, 2021. The adoption of ASU 2020-01 did not have a material impact on the Company's consolidated financial statements.

(aa) Accounting Pronouncements – Recently Issued

On August 5, 2020, the FASB issued ASU No. 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06), to improve financial reporting associated with accounting for convertible instruments and contracts in an entity's own equity. The amendments in this ASU 2020-06 are effective for public business entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The Company does not expect the adoption of ASU 2020-06 will have a material impact on the Company's consolidated financial statements.

3. REVERSE TAKEOVER TRANSACTION ("RTO")

On December 14, 2020, Verano Holdings, LLC, a Delaware limited liability company, Majesta Minerals, Inc., an Alberta corporation (the "Public Corporation"), 1276268 B.C. Ltd., a British Columbia corporation ("Verano FinCo"), 1277233 B.C. Ltd, a British Columbia corporation, and 1278655 B.C. Ltd., a British Columbia corporation ("Majesta SubCo"), entered into an arrangement agreement (as amended January 26, 2021, the "Definitive Agreement"), pursuant to which the Company would result from the reverse takeover transaction contemplated thereby (the "RTO").

In accordance with the plan of arrangement forming part of the Definitive Agreement (the "Plan of Arrangement"), the Public Corporation changed its name to "Verano Holdings Corp." and completed a consolidation of its common shares on the basis of 100,000 issued and outstanding common shares on a post-consolidation basis.

In accordance with the terms of the Plan of Arrangement, 10,000,000 subscription receipts (the "Subscription Receipts") were issued on January 21, 2021, at a price per Subscription Receipt of \$10², for aggregate gross proceeds of \$100,000 (the "RTO Financing"). In the RTO Financing, the Company issued a total of 10,000,000 Subordinate Voting Shares to the purchasers of the Subscription Receipts and 578,354 Subordinate Voting Shares and \$4,580 in transactions costs to the offering agents as a broker fee.

The Public Corporation reorganized capital by altering its notice of articles and articles to (i) attach special rights and restrictions to its common shares, (ii) change the identifying name of its common shares to "Class A Subordinate Voting Shares" and (iii) create a new class of Class B Proportionate Voting Shares (the "Proportionate Voting Shares"). Pursuant to the Plan of Arrangement, thereafter Verano FinCo amalgamated with Majesta SubCo. Majesta SubCo was then liquidated, and the net proceeds of the RTO Financing transferred to the Company, as the resulting corporation in the RTO.

² Such amount not in thousands

The members of Verano Holdings LLC, and owners of certain of its subsidiaries, through a series of transactions, exchanged their ownership interests in Verano Holdings LLC and such subsidiaries for 96,892,040 Subordinate Voting Shares and 1,172,382 Proportionate Voting Shares. In connection with the Company’s acquisitions (Note 9) of Alternative Medical Enterprises, LLC, Plants of Ruskin GPS, LLC, and RVC 360, LLC (collectively, the “AME Parties”), that occurred concurrently with the RTO, the members of the AME Parties, through a series of transactions, exchanged their membership interests in the AME Parties for 18,092,987 Subordinate Voting Shares and 470,984. Proportionate Voting Shares, plus cash consideration, as further described in Note 9(a). The members of the AME Parties received \$20,000 in proceeds from the RTO Financing.

In accordance with ASC 805, *Business Combinations*, the substance of the transaction is a reverse takeover of a nonoperating company. The transaction does not constitute a business combination as Majesta SubCo does not meet the definition of a business under the standard. As a result, the transaction is accounted for as a capital transaction with Verano Holdings, LLC being identified as the acquirer and the equity consideration being measured at fair value. The resulting consolidated statement of financial position is presented as a continuance of Verano Holdings, LLC and comparative figures presented in the consolidated financial statements prior to the reverse takeover are those of Verano Holdings, LLC.

ASC 505-50, *Equity-Based Payments to Non-Employees*, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Because the Company issued shares with a value in excess of the assets received, the difference is recognized in RTO-related issuance cost through equity. The amount assigned to the transaction cost of \$198 is the difference between the fair value of the consideration and the net identifiable assets of Majesta SubCo acquired by the Company.

4. INVENTORIES

The Company’s inventories consist of the following:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Raw Materials	\$ 5,767	\$ -
Work in Process	93,298	26,835
Finished Goods	<u>38,569</u>	<u>10,519</u>
Total Inventories	<u>\$ 137,634</u>	<u>\$ 37,354</u>

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5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and related accumulated depreciation consists of the following at December 31, 2021 and December 31, 2020:

<u>December 31, 2021</u>	<u>December 31, 2020</u>
------------------------------	------------------------------

Land	\$	29,399	\$	12,138
Buildings and Improvements		126,020		15,223
Furniture and Fixtures		13,259		5,466
Computer Equipment and Software		14,078		3,331
Leasehold Improvements		182,514		89,394
Tools and Equipment		65,774		27,237
Vehicles		3,229		850
Assets Under Construction ⁽¹⁾		64,107		8,514
		<u>498,380</u>		<u>162,153</u>
Total Property, Plant and Equipment, Gross		498,380		162,153
Less: Accumulated Depreciation		<u>(46,148)</u>		<u>(17,971)</u>
Property, Plant and Equipment, Net	\$	<u>452,232</u>	\$	<u>144,182</u>

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

A reconciliation of the beginning and ending balances of property, plant and equipment is as follows:

	Property, Plant and Equipment, Gross	Accumulated Depreciation	Property, Plant and Equipment, Net
Balance as of January 1, 2020	\$ 104,470	\$ (8,917)	95,553
Additions	57,002	-	57,002
Property, plant and equipment from business combination	2,511	-	2,511
Disposals	(11)	-	(11)
Deconsolidation	(1,819)	-	(1,819)
Depreciation		(9,054)	(9,054)
Balance as of December 31, 2020	<u>\$ 162,153</u>	<u>\$ (17,971)</u>	<u>\$ 144,182</u>
Additions	164,940	-	164,940
Property, plant and equipment from business combination	175,172	-	175,172
Disposals	(3,855)	15	(3,870)
Depreciation	-	(28,192)	(28,192)
Balance as December 31, 2021	<u>\$ 498,380</u>	<u>\$ (46,148)</u>	<u>\$ 452,232</u>

For the years ended December 31, 2021 and December 31, 2020, depreciation expense included in costs of goods sold totaled \$20,395 and \$7,797 respectively.

6. 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 at the acquisition date. Amortization of definite life intangibles is provided on a straight-line basis over their estimated useful lives. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

As of December 31, 2021, intangible assets consisted of the following:

	Licenses	Tradenames	Technology	Total
<u>Cost</u>				
Balance as of January 1, 2021	\$ 76,375	\$ 78	\$ -	\$ 76,453
Purchases	55,776	-	115	55,891
Additions from business combination	1,254,781	54,088	11,488	1,320,357
Adjustments to purchase price allocation	(801)	-	-	(801)
Disposals	-	-	-	-
Balance as of December 31, 2021	<u>\$ 1,386,131</u>	<u>\$ 54,166</u>	<u>\$ 11,603</u>	<u>\$ 1,451,900</u>
<u>Accumulated Amortization</u>				
Balance as of January 1, 2021	4,034	-	-	4,034
Amortization	62,669	4,158	1,126	67,953
Balance as of December 31, 2021	<u>\$ 66,703</u>	<u>\$ 4,158</u>	<u>\$ 1,126</u>	<u>\$ 71,987</u>
<u>Net Book Value</u>				
Balance as of January 1, 2021	72,341	78	-	72,419
Balance as of December 31, 2021	<u>\$ 1,319,428</u>	<u>\$ 50,008</u>	<u>\$ 10,477</u>	<u>\$ 1,379,913</u>

As of December 31, 2020, intangible assets consisted of the following:

	Licenses	Tradenames	Technology	Total
<u>Cost</u>				
Balance as of January 1, 2020	\$ 22,358	\$ 78	\$ -	\$ 22,436
Purchases	7,000	-	-	7,000
Additions from business combination	47,017	-	-	47,017
Disposals	-	-	-	-
Balance as of December 31, 2020	<u>\$ 76,375</u>	<u>\$ 78</u>	<u>\$ -</u>	<u>\$ 76,453</u>
<u>Accumulated Amortization</u>				
Balance as of January 1, 2020	1,880	-	-	1,880
Amortization	2,154	-	-	2,154
Balance as of December 31, 2020	<u>\$ 4,034</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,034</u>
<u>Net Book Value</u>				

Balance as of January 1, 2020	20,478	78	-	20,556
Balance as of December 31, 2020	<u>\$ 72,341</u>	<u>\$ 78</u>	<u>-</u>	<u>\$ 72,419</u>

The Company recorded amortization expense for the years ended December 31, 2021 and 2020 \$67,953 and \$2,154, respectively.

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

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6. INTANGIBLE ASSETS AND GOODWILL (Continued)

The following table outlines the estimated annual amortization expense related to intangible assets as of December 31, 2021:

Year Ending December 31:	Estimated Amortization
2022	\$ 99,057
2023	99,057
2024	99,057
2025	99,057
2026	99,057
Thereafter	884,628
	<u>\$ 1,379,9135</u>

The changes in the carrying amount of goodwill, by reportable segment, for the years ended December 31, 2020 and 2021 were as follows:

	January 1, 2020	Impairment	Adjustments to purchase price allocation	Acquisitions	December 31, 2020
Cultivation	\$ 64	\$ -	\$ -	\$ -	\$ 64
Retail	\$ 5,000	-	-	10,965	15,965
	<u>\$ 5,064</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,965</u>	<u>\$ 16,029</u>

	January 1, 2021	Impairment	Adjustments to purchase price allocation	Acquisitions	December 31, 2021
Cultivation	\$ 64	\$ -	\$ 312	\$ 90,740	\$ 91,116
Retail	15,965	-	(30)	261,079	277,014
	<u>\$ 16,029</u>	<u>\$ -</u>	<u>\$ 282</u>	<u>\$ 351,819</u>	<u>\$ 368,130</u>

During 2021, the Company recorded a measurement period adjustment in connection with its 2020 acquisitions of FGM Processing, LLC, Elevele, LLC, and MME IL Holdings, LLC. The net impact of the adjustment resulted in a decrease in the license value of \$801 and an increase to goodwill by \$282. The

remaining \$519 of the adjustment to the purchase price was allocated among the other tangible assets on the opening balance sheet.

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7. EARNINGS PER SHARE

The Company presents basic and diluted earnings per share. Basic earnings per share is calculated by dividing the profit or loss attributable to shareholders by the weighted average number of shares (on an as converted basis) outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of shares outstanding, for the effects of all dilutive potential shares, which are comprised of convertible shares, warrants, options and RSUs issued.

The computations of net income per share on both basic and diluted bases, including reconciliations of the numerators and denominators, were as follows:

	Twelve Months Ended December 31, 2021	Twelve Months Ended December 31, 2020	Twelve Months Ended December 31, 2019
Numerator			
Net Income attributable to Verano Holdings Corp.	\$ (14,676)	\$ 38,401	\$ (18,273)
Denominator			
Basic			
Pre-RTO weighted-average shares outstanding	158,203,932		
Post-RTO weighted-average shares outstanding	307,177,442		
Weighted-average shares outstanding – basic	290,443,432	263,919,366	261,432,115
Diluted			
Pre-RTO weighted-average shares outstanding	158,203,932		
Post-RTO weighted-average shares outstanding	307,177,442		
Weighted-average shares outstanding – diluted	290,443,432	270,719,280	261,432,115
Basic earnings per share	\$ (0.05)	\$ 0.15	\$ (0.07)
Diluted earnings per share	\$ (0.05)	\$ 0.14	\$ (0.07)

8. NOTES RECEIVABLE

As of December 31, 2021, notes receivable consisted of two secured promissory notes:

The first note is a secured promissory note dated August 13, 2020 with a third party for \$180. The note bears interest of 8% per annum and was originally due and payable on or before the earlier of February 13, 2021 or such other date the principal amount becomes due and payable by acceleration after an event of default.

The promissory note can be extended at the discretion of the Company. Negotiation between parties is ongoing to extend the maturity date of the secured promissory note. As of December 31, 2020 the balance was fully outstanding. As of December 31, 2021, the Company has received principal payments of \$56 and has outstanding principal of \$124 plus accrued interest of \$7.

The second note is a secured promissory note issued March 24, 2021 with a third party for \$147. Interest of 8% per annum and principal were originally due on September 24, 2021. The maturity date of the secured promissory note has been extended to March 24, 2022. As of December 31, 2021, the Company has not received any principal payments to date and has recognized accrued interest of \$7.

As of December 31, 2020, notes receivable also consisted of a \$5,000 secured promissory note dated March 2019 bearing 10% interest and originally matured in September 2020. The note was later amended to reduce the principal due by \$300, increase the interest rate to 15.25%, and extend the maturity date. As of December 31, 2020, the Company had remaining principal outstanding of \$2,825 plus accrued interest. The Company received all principal and interest payments during 2021.

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9. ACQUISITIONS

(a) Merger Agreement

On November 6, 2020, Verano Holdings LLC entered into an agreement and plan of merger with the AME Parties, pursuant to which the Company, as the assignee of all of Verano Holdings LLC's rights and obligations thereunder, would acquire the AME Parties and their subsidiaries and ownership and control interests (the "AME Group") via a series of merger transactions (the "AME Mergers"). The AME Mergers were contingent upon, and were to close contemporaneously with the RTO, resulting in the creation of the Company as a Canadian publicly-traded parent company of Verano Holdings LLC, the AME Parties and their respective subsidiaries.

The RTO and AME Mergers closed on February 11, 2021 and resulted in the AME Group becoming wholly-owned subsidiaries of the Company. The members of the AME Parties, through the RTO and AME Mergers, exchanged their membership interests in the AME Parties for 18,092,988 Subordinate Voting Shares and 470,984 Proportionate Voting Shares valued at approximately \$651,914, plus cash consideration of \$35,000. The shares and cash consideration of \$20,000 was paid at the closing of the mergers, \$10,000 was paid on August 11, 2021, and the \$5,000 balance is payable in February 2022. As of December 31, 2021, the present value of unpaid deferred consideration is \$4,986 and is included in the acquisition price payable balance on the Company's consolidated balance sheets.

The Company accounted for the transaction as a business combination in accordance with ASC 805, *Business Combinations*. The following table summarizes the provisional accounting estimates of the merger transaction:

	<u>AltMed Florida</u>	<u>AltMed Arizona</u>	<u>Total</u>
Cash	\$ 5,446	\$ 507	\$ 5,953
Accounts receivable, net	60	498	558
Inventory	83,205	5,827	89,032

Prepays and other current assets	833	1,989	2,822
Property, plant and equipment, net	73,386	9,751	83,137
Right-of-use asset, net	9,651	-	9,651
Other assets	1,001	-	1,001
Accounts payable and accrued liabilities	(8,935)	(2,576)	(11,511)
Notes payable	(3,579)	(3,343)	(6,922)
Deferred taxes	(123,720)	(37,290)	(161,010)
Lease liabilities	(9,651)	-	(9,651)
Total identifiable net assets (liabilities)	27,697	(24,637)	3,060
Intangible assets	498,938	184,588	683,526
Net assets	\$ 526,635	\$ 159,951	\$ 686,586

Selected line items from the Company's unaudited condensed interim consolidated statements of operations for the twelve months ended December 31, 2021, adjusted as if the acquisition of AltMed, deemed to be the only acquisition with material operations in the period, had occurred on January 1, 2021, are presented below:

	Consolidated Results	AltMed Pre- acquisition	Pro-forma Results
Revenues, net of discounts	737,850	22,402	760,252
Net income (Loss)	(12,258)	10,932	(1,326)

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9. ACQUISITIONS (Continued)

(b) 2021 Business Combinations

The Company has determined that the below acquisitions are business combinations under ASC 805, *Business Combinations*. Those 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 with any excess of the aggregate consideration over the fair values of the identifiable net assets allocated to goodwill. Operating results have been included in these consolidated financial statements from the date of the acquisition. Any goodwill recognized is attributed based on reporting units.

The purchase price allocation for the acquisitions reflects various fair value estimates and analyses which are subject to change within the measurement period. 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.

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

Glass City Alternatives, LLC

On September 20, 2020, the Company entered into an agreement to acquire, upon the satisfaction of certain conditions precedent, all of the ownership interest of Glass City Alternatives, LLC which operates a dispensary located in Ohio. The transaction closed on January 7, 2021. The total cash purchase price was \$2,700 plus a \$329 purchase price adjustment. The Company issued \$500 in Subordinate Voting Shares upon execution of the RTO. As of December 31, 2021, the present value of unpaid deferred consideration of \$1,100 is included in the acquisition price payable balance on the Company's consolidated balance sheets and was paid in January 2022.

Perpetual Healthcare Inc.

On February 25, 2021, Verano entered into an agreement to purchase control of Perpetual Healthcare Inc. ("Emerald"). Emerald is a marijuana dispensary and is a non-profit entity in Arizona. The Company, through a management service agreement ("MSA") and control of the board of directors, obtained control of Emerald's dispensary operations and license. The transaction became effective on March 10, 2021, and the Company consolidated Emerald through the Voting Interest Model ("VOE") in accordance with ASC 810, *Consolidations*. Total consideration includes cash consideration of \$11,250 plus a \$326 purchase price adjustment, 541,994 Subordinate Voting Shares valued at approximately \$10,002. The remaining obligation was settled through the issuance of 350,644 Subordinate Voting Shares valued at approximately \$6,992 in May 2021. As of December 31, 2021, the total consideration had been paid in full.

The Herbal Care Center Inc.

On February 24, 2021, Verano entered into an equity purchase agreement to acquire all equity interest in EINJO, L.P. and SPSLE, Corp. to become the sole owner of The Herbal Care Center, Inc. ("The Herbal Care Center"), which holds licenses for two dispensaries in Illinois. The Company, through a MSA, obtained control of The Herbal Care Center's operations and marijuana license. The transaction became effective on March 17, 2021, and the Company consolidated The Herbal Care Center through the Variable Interest Model ("VIE") in accordance with ASC 810, *Consolidations*. Total consideration includes cash consideration of \$18,750, plus a \$2,107 purchase price adjustment, of which \$10,000 was paid upon entering the MSA.

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9. ACQUISITIONS *(Continued)*

(b) 2021 Business Combinations *(Continued)*

The total consideration also includes 90,464 Subordinate Voting Shares and 9,625 Proportionate Voting Shares valued at approximately \$22,778 paid at closing. As of December 31, 2021, the present value of unpaid deferred consideration of \$10,852 is included in the acquisition price payable balance on the Company's consolidated balance sheets.

Local Joint

On March 22, 2021, the Company entered into an agreement with Flower Launch LLC, to acquire the rights to manage Patient Alternative Relief Center, Inc. ("Local Joint"), also referred to as Local Joint. Local Joint is a retail dispensary that operates as a non-profit entity in Arizona. The Company, through a MSA and

control of the board of directors, obtained control of Local Joint's operations and its license. The transaction became effective on March 30, 2021, and the Company consolidated Local Joint through the VOE in accordance with ASC 810, *Consolidations*. Total consideration included cash consideration of \$13,500, with \$10,000 paid on the closing date and \$3,500 paid in July 2021, plus 179,767 Subordinate Voting Shares valued at approximately \$3,031. As of December 31, 2021, the total consideration had been paid in full.

Territory

On February 23, 2021, the Company entered into a merger agreement to acquire BISHCO LLC, which holds the rights to manage three non-profit entities in Arizona through a MSA. The non-profit entities, AZGM3, Inc., Vending Logistics, LLC, and The Medicine Room, LLC, each hold an Arizona marijuana license. The agreement triggered the resignation of all board members and concurrently appointed the Company executives to the board of directors that govern each non-profit entity. Through the acquisition of BISHCO LLC and its MSA, as well as the Company's appointment to the board of directors, the Company obtained control of the non-profit entities' operations and their respective licenses.

The transaction became effective on April 8, 2021 and the Company consolidated the non-profit entities through the VOE in accordance with ASC 810, *Consolidations*. Total consideration included \$18,699 paid upon closing, plus a \$1,036 purchase price adjustment, 997,453 Subordinate Voting Shares and 29,924 Proportionate Voting Shares valued at approximately \$78,916. The remaining consideration is related to contingent consideration with \$12,750 payable in cash on March 31, 2022, and the remaining \$12,750 payable in shares or cash at the election of the recipient on March 31, 2023. As of December 31, 2021, the present value of unpaid deferred consideration of \$21,882 is included in the acquisition price payable balance on the Company's consolidated balance sheets.

TerraVida Holistic Center, LLC

On February 24, 2021, the Company entered into an agreement to acquire TerraVida Holistic Centers, LLC, which holds the rights to three active dispensaries in Pennsylvania. The transaction closed May 11, 2021. Total consideration included cash consideration of \$64,316, plus a \$1,993 purchase price adjustment, of which \$18,809 was paid at closing and the remaining \$47,500 was paid over the first six months after closing. The merger agreement also included consideration of 1,506,750 Subordinate Voting Shares and 15,067 Proportionate Voting Shares valued at approximately \$59,732. As of December 31, 2021, the total consideration had been paid in full.

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9. ACQUISITIONS *(Continued)*

(b) 2021 Business Combinations *(Continued)*

The Healing Center, LLC

On March 29, 2021, the Company entered into an agreement to acquire three active dispensaries in Pennsylvania by purchasing all the issued and outstanding equity interests of The Healing Center, LLC ("The Healing Center"). The transaction closed on May 14, 2021. At the time the transaction closed, the Healing Center leased the real estate where the dispensaries are located from three separate real estate entities. On September 3, 2021, the Company acquired the THC Real Estate in cash transactions. The acquisitions were accounted for as a single business combination in accordance with ASC 805, *Business*

Combinations. Total consideration for The Healing Center included cash consideration of \$56,892, plus a \$2,355 purchase price adjustment, of which \$31,463 was paid upon closing and an additional \$27,784 was paid 60 days after the closing. In addition, the total consideration included 454,302 Subordinate Voting Shares and 25,744 Proportionate Voting Shares valued at approximately \$61,108, and \$18,925 of contingent consideration evenly allocated between shares and cash. As of December 31, 2021, The Healing Center's present value of unpaid deferred consideration of \$13,982 payable in cash and shares is included in the acquisition price payable balance on the Company's consolidated balance sheets, which was subsequently paid in February 2022.

Verano funded the acquisition of THC Real Estate through a credit facility with Chicago Atlantic Credit Company (together with its affiliated entities, "Chicago Atlantic") for \$12,650. Total consideration was paid directly to the sellers in the amount of \$12,225. The Company received \$20 in cash proceeds and incurred \$405 in issuance costs and debt discounts on the Chicago Atlantic credit facility, which was paid net of proceeds upon closing. The Company amortizes debt issuance costs through interest expense over the life of the credit agreement. Refer to Note 10 for more information. As of December 31, 2021, the total consideration for THC Real Estate had been paid in full.

Mad River Remedies, LLC

On April 1, 2021, the Company entered into an agreement to acquire Mad River Remedies, LLC, which operates a dispensary in Ohio. The transaction closed on July 8, 2021. The consideration included cash consideration of \$12,984, subject to a purchase price adjustment of \$29, and 488,861 Subordinate Voting Shares value at approximately \$7,814, delivered at closing. As of December 31, 2021, the total consideration had been paid in full.

Agri-Kind, LLC & Agronomed Holdings Inc

On April 21, 2021, the Company entered into an agreement to acquire all of the issued and outstanding equity interests in Agri-Kind, LLC ("Agri-Kind"), an operator of a cultivation and production facility of medical marijuana located in Pennsylvania, and Agronomed Holdings Inc., the owner of the cultivation and processing facility operated by Agri-Kind. The transaction closed on July 12, 2021. The total consideration included cash consideration of \$78,848, plus a \$678 purchase price adjustment, of which \$43,713 was paid at closing and the remaining \$35,813 was paid within three months of closing. In addition, the total consideration included the issuance of 3,208,035 Subordinate Voting Shares valued at approximately \$50,994, and contingent consideration of \$33,971, which may fluctuate based upon financial performance metrics of Agri-Kind for 2021 and is payable in Subordinate Voting Shares, unless cash payment is elected by the recipient. As of December 31, 2021, the present value of unpaid deferred consideration of \$33,617 is included in the acquisition price payable balance on the Company's consolidated balance sheets.

Agronomed Biologics, LLC

On April 21, 2021, the Company entered into an agreement to acquire all the issued and outstanding equity interests in Agronomed Biologics, LLC ("Agronomed"), which holds a clinical registrant license that allows for cultivation, production, and operation of six dispensaries in Pennsylvania. As a clinical registrant, Agronomed has partnered with the Drexel University College of Medicine to conduct medical marijuana research. The transaction closed on July 12, 2021. Total consideration included cash consideration of \$10,473 paid upon closing and an additional \$42,493 of contingent consideration to be paid in cash or shares at the election of the seller. In addition, the merger consideration included 3,240,436 Subordinate Voting Shares valued at approximately \$51,509 issued upon closing. As of December 31, 2021, the present value of unpaid deferred consideration of \$42,133 is included in the acquisition price payable balance on the Company's consolidated balance sheets.

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9. ACQUISITIONS *(Continued)*

(b) 2021 Business Combinations *(Continued)*

Willow Brook Wellness, LLC

On September 13, 2021, the Company entered into a definitive agreement to acquire all the issued and outstanding equity interests in Willow Brook Wellness, LLC, which operates a dispensary in Connecticut. The transaction closed on October 25, 2021. Total consideration included cash of \$14,913, subject to a purchase price adjustment of \$14, and 727,934 Subordinate Voting Shares valued at approximately \$8,163. As of December 31, 2021, the present value of unpaid deferred consideration of \$7,070 is included in the acquisition price payable balance on the Company's consolidated balance sheets and will be settled through a cash payment due October 25, 2022.

Caring Nature, LLC

On November 10, 2021, the Company entered into an agreement to acquire all the issued and outstanding equity interests in Caring Nature LLC, which operates a dispensary in Connecticut. The transaction closed on December 20, 2021. The total consideration includes cash of \$12,331, subject to a purchase price adjustment and, \$12,000 payable in Subordinate Voting Shares payable over twelve months. Additionally, the purchase agreement included \$2,000 of contingent consideration to be paid in Subordinate Voting Shares. As of December 31, 2021, the present value of unpaid deferred consideration of \$19,961 is included in the acquisition price payable balance on the Company's consolidated balance sheets.

Connecticut Pharmaceutical Solutions, Inc.

On November 10, 2021, the Company entered into an agreement to acquire all the issued and outstanding equity interests in Connecticut Pharmaceutical Solutions, Inc., which holds a medical marijuana producer license in Connecticut. The transaction closed on December 28, 2021. Total consideration includes cash of \$6,402 and 8,145,142 Subordinate Voting Shares valued at approximately \$98,538 issued at closing.

Additionally, there are 73,130 deferred Subordinate Voting Shares subject to purchase price adjustments and 1,128,441 deferred Subordinate Voting Shares to be issued in December 2022, collectively valued at approximately \$14,483. The merger agreement also includes consideration of \$19,622 to be paid in 1,625,546 deferred Subordinate Voting Shares payable upon the first sale of adult-use cannabis in the state of Connecticut. Both payments meet equity classification in accordance with ASC 815.

The remaining consideration is related to contingent consideration of \$24,706, which may fluctuate based on 2021 financial performance metrics. The contingent consideration will be paid in Subordinate Voting Shares and is expected to be settled in the second quarter of 2022. As of December 31, 2021, the present value of unpaid deferred consideration, in the form of contingent consideration, is \$24,706 and is included in the acquisition price payable balance on the Company's consolidated balance sheets.

9. ACQUISITIONS (Continued)

(b) 2021 Business Combinations (Continued)

The following table summarizes the provisional accounting estimates of the acquisitions that occurred during the first quarter for the year ended December 31, 2021:

	<u>Glass City Alternatives</u>	<u>Perpetual Healthcare</u>	<u>The Herbal Care Center</u>	<u>Local Joint</u>	<u>Total</u>
Cash and cash equivalents	\$ 178	\$ 478	\$ 2,168	\$ 540	\$ 3,364
Accounts receivable, net	-	-	2,000	-	2,000
Notes receivable	-	-	-	398	398
Inventory	58	422	1,435	219	2,134
Prepaid and other current assets	50	43	109	-	202
Property, plant and equipment, net	502	135	1,642	451	2,730
Right-of-use asset, net	63	215	936	2,480	3,694
Accounts payable and accrued liabilities	(17)	(200)	(3,307)	(216)	(3,740)
Deferred income tax	-	(6,548)	(11,914)	-	(18,462)
Lease liabilities	(63)	(215)	(936)	(2,480)	(3,694)
Total identifiable net assets (liabilities)	771	(5,670)	(7,867)	1,392	(11,374)
Intangible assets	2,721	33,387	51,304	16,095	103,507
Net Assets	<u>\$ 3,492</u>	<u>\$ 27,717</u>	<u>\$ 43,437</u>	<u>\$ 17,487</u>	<u>\$ 92,133</u>

The following table summarizes the provisional accounting estimates of the acquisitions that occurred during the second quarter for the year ended December 31, 2021:

	<u>The Healing Center</u>	<u>TerraVida Holistic Centers</u>	<u>Territory</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,496	\$ 3,222	\$ 1,809	\$ 8,527
Accounts receivable, net	-	-	231	231
Inventory	3,088	4,091	7,162	14,341
Prepaid & other current assets	810	692	1,127	2,629
Deposits & other non-current assets	-	75	8	83
Property, plant and equipment, net	11,412	2,612	7,872	21,896
Right-of-use asset, net	-	2,122	129	2,251
Accounts payable and accrued liabilities	(2,569)	(1,635)	(2,770)	(6,974)
Other liabilities	-	-	(1,188)	(1,188)
Deferred income tax	-	-	(23,598)	(23,598)
Lease liabilities	-	(2,122)	(129)	(2,251)

Total identifiable net assets (liabilities)	16,237	9,057	(9,347)	15,947
Intangible assets	<u>133,804</u>	<u>116,053</u>	<u>126,120</u>	<u>375,977</u>
Net Assets	<u>\$ 150,041</u>	<u>\$ 125,110</u>	<u>\$ 116,773</u>	<u>\$ 391,924</u>

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9. ACQUISITIONS (Continued)

(b) 2021 Business Combinations (Continued)

The following table summarizes the provisional accounting estimates of the acquisitions that occurred during the third quarter for the year ended December 31, 2021:

	<u>Mad River Remedies</u>	<u>Agronomed Biologics</u>	<u>Agri Kind & Agronomed Holdings Inc</u>	<u>Total</u>
Cash and cash equivalents	\$ 755	\$ 2,300	\$ 2,024	\$ 5,079
Accounts receivable, net	262	-	560	822
Inventory	396	623	4,188	5,207
Prepaid & other current assets	85	273	653	1,011
Deposits & other non-current assets	-	40	-	40
Property, plant and equipment, net	589	5,844	35,965	42,398
Right-of-use asset, net	125	2,715	-	2,840
Accounts payable and accrued liabilities	(478)	(1,126)	(1,852)	(3,456)
Other liabilities	-	(2,788)	(14,730)	(17,518)
Deferred income tax	-	(29,913)	-	(29,913)
Lease liabilities	<u>(125)</u>	<u>(2,715)</u>	<u>-</u>	<u>(2,840)</u>
Total identifiable net assets (liabilities)	1,609	(24,747)	26,808	3,670
Total Intangible assets	<u>19,218</u>	<u>129,222</u>	<u>137,678</u>	<u>286,118</u>
Net Assets	<u>\$ 20,827</u>	<u>\$ 104,475</u>	<u>\$ 164,486</u>	<u>\$ 289,788</u>

The following table summarizes the provisional accounting estimates of the acquisitions that occurred during the fourth quarter for the year ended December 31, 2021:

	<u>Willow Brook</u>	<u>Caring Nature</u>	<u>CT Pharma</u>	<u>Total</u>
Cash and cash equivalents	\$ 443	\$ 251	\$ 2,793	\$ 3,487
Accounts receivable, net	-	-	1,314	1,314
Inventory	243	155	10,582	10,980

Prepaid & other current Assets	92	41	1,036	1,169
Deposits and Other non-current assets	3	-	-	3
Property, plant and equipment, net	282	91	24,638	25,011
Right-of-use asset, Net	54	133	-	187
Accounts payable and accrued liabilities	(99)	(11)	(2,213)	(2,323)
Other liabilities	-	-	(2,800)	(2,800)
Deferred income tax	-	(7,123)	(40,062)	(47,185)
Lease liabilities	(54)	(133)	-	(187)
Total identifiable net assets (liabilities)	964	(6,596)	(4,712)	(10,344)
Total Intangible assets	21,705	32,878	168,464	223,047
Net Assets	<u>\$ 22,669</u>	<u>\$ 26,282</u>	<u>\$ 163,752</u>	<u>\$ 212,703</u>

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9. ACQUISITIONS *(Continued)*

(c) 2020 Business Combinations *(Continued)*

ChiVegas

In July 2020, the Company acquired an additional 50% ownership interest in a Las Vegas real estate entity which provided the Company with a controlling interest and was accounted for as a step-acquisition in accordance with ASC 805, *Business Combinations*. The purchase price was allocated to the building and land, which totaled \$1,160. Consideration included cash of \$230 and a note payable of \$350 (Note 9). A gain on the previously held equity interest was recognized for \$458.

MME IL Holdings, LLC

On July 1, 2020, the Company entered into a membership interest purchase agreement (and amended and restated such membership interest purchase agreement on October 30, 2020) to acquire all of the issued and outstanding equity interests in MME IL Holdings, LLC, which operates two dispensaries in Illinois. The total purchase price was \$20,000 plus a \$31 working capital adjustment. The Company paid \$10,000 in July 2020 and an additional \$8,000 was paid in November 2020. The remaining purchase price will be paid pursuant to a \$2,000 promissory note, of which \$1,000 has been repaid. The Company also entered into a management and administrative services agreement with MME IL Holdings, LLC's subsidiaries. Based on the funding and providing of services, the Company determined that control was transferred at the closing and accounted for the transaction as a business acquisition in accordance with ASC 805, *Business Combination*. Acquisition costs, which are expensed as incurred, were not significant and were excluded from the consideration transferred.

Elevele, LLC

On December 8, 2020, the Company entered into a membership interest purchase agreement to acquire all of the issued and outstanding equity interests in Elevele, LLC, which operates two dispensaries in Illinois. The total purchase price was \$22,847 plus a \$315 working capital adjustment. The Company paid \$5,347 in December 2020. The remaining \$10,000 of purchase price will be paid by June 8, 2022. Based on the funding and providing of services, the Company determined that control was transferred at the closing and accounted for the transaction as a business acquisition in accordance with ASC 805, Business Combinations. The acquisition was deemed business combinations, as the acquired set contained inputs, outputs and a substantive process. The screen test was not deemed conclusive due to the subjectivity associated with level 3 inputs used in the license valuation. Acquisition costs, which are expensed as incurred, were not significant and were excluded from the consideration transferred.

FGM Processing, LLC

In December 2020, a Company affiliate entered into a membership purchase agreement with a licensee in Maryland which would allow the Company to process medical marijuana in Maryland. The Company analyzed the transactions and recorded the transaction as a business combination. The total purchase price was \$6,900, of which \$1,050 was paid in December 2020. The Company recognized a license in the amount of \$6,640 and tools and equipment in the amount of \$260, which are included in the intangible assets and property, plant and equipment, respectively, on the Company's consolidated balance sheets. The acquisition was deemed a business combination, as the acquired set contained inputs, outputs and a substantive process. The screen test was not deemed conclusive due to the subjectivity associated with level 3 inputs used in the license valuation.

The following table summarizes the provisional accounting estimates of the acquisition that occurred during the year ended December 31, 2020:

	<u>MME IL</u>	<u>Elevele</u>	<u>Other</u>	<u>Total</u>
Cash and cash equivalents	\$ 329	\$ 1,035	\$ -	\$ 1,364
Inventory	553	431	-	984
Prepaid & other current assets	3	366	-	369
Property, plant and equipment, net	1,053	38	1,420	2,511
Right-of-use asset, net	-	44	-	44
Accounts payable and accrued liabilities	(941)	(1,109)	(350)	(2,400)
Deferred income tax	(5,767)	(6,548)	-	(12,315)
Lease liabilities	(123)	(68)	-	(191)
Investments in associates	-	-	(580)	(580)
Total identifiable net assets (liabilities)	(4,893)	(5,811)	490	(10,214)
Total Intangible assets	<u>24,923</u>	<u>28,113</u>	<u>6,640</u>	<u>59,676</u>
Net Assets	<u>\$ 20,030</u>	<u>\$ 22,302</u>	<u>\$ 7,130</u>	<u>\$ 49,462</u>

9. ACQUISITIONS *(Continued)*

(d) Asset Acquisitions

2021 Asset Acquisitions

NSE Holdings, LLC

On February 24, 2021, a subsidiary of the Company entered into an agreement pursuant to which it acquired all the equity interests of NSE Holdings, LLC (“NSE”), which holds one dispensary permit in Pennsylvania that gives NSE the ability to open three dispensaries. The transaction closed on March 9, 2021. The Company paid cash consideration of \$7,350 upon closing and issued 666,587 Subordinate Voting Shares and 6,665 Proportionate Voting Shares valued at approximately \$25,160. Consideration also includes contingent consideration of \$22,514, which may fluctuate based upon financial performance metrics of NSE Holdings. The Company analyzed the transaction and accounted for the transaction as an asset acquisition in accordance with ASC 805, *Business Combinations*. The Company capitalized licenses in the amount of \$55,016. As of December 31, 2021, the present value of unpaid deferred consideration is \$14,280 and is included in the acquisition price payable balance on the Company’s consolidated balance sheets. The unpaid consideration relates to earnouts that are expected to be settled in share issuances of Subordinate Voting Shares.

Ohio Grown Therapies, LLC

On June 30, 2021, the Company exercised and closed on its option to acquire an Ohio dispensary license from Ohio Grown Therapies, LLC, which was granted pursuant to an option purchase agreement entered into on January 14, 2019. The exercise and closing had no impact on operations as the Company already exerted control over the dispensary through a consulting agreement entered into in 2019. The Company capitalized the license in the amount of \$760 to the intangible license value included on the Company’s consolidated balance sheets. As of December 31, 2021, the total consideration had been paid in full.

Real Estate

During the fourth quarter of the year ending December 31, 2021, Verano entered into real estate acquisitions in Maryland, Pennsylvania, Nevada and, New Jersey for a total of \$22,795. Verano funded two of the acquisition through two promissory notes for \$10,225 (refer to Note 10 for further details). The acquisitions were accounted for as an asset acquisition with the application of the ASC 805, *Business Combinations*. As of December 31, 2021, the total consideration for these acquisitions had been paid in full.

2020 Asset Acquisition

Local Dispensaries, LLC

During 2020, the Company entered into consulting, licensing, or other contractual arrangements with licensees in Pennsylvania which would allow the Company to operate medical and/or recreational marijuana dispensaries in Pennsylvania. The Company analyzed the transactions and recorded the transactions as asset acquisitions. The Company capitalized the licenses in the amount of \$7,000, which are included in the intangible assets on the Company’s consolidated balance sheets. The Company entered into a secured promissory note of \$3,163 in July and the remaining liability of seller financing was fully repaid ahead of the scheduled pay-off date. Such payment was the final financial obligation remaining under the transaction documents.

For the Years Ended December 31, 2021, 2020 and 2019*(\$ in Thousands except shares and per share amounts)***10. DEBT**

As of December 31, 2021, and December 31, 2020 notes payable consisted of the following:

	As of	
	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Credit Facility	\$ 250,000	\$ 30,000
Secured Promissory Notes	6,663	7,410
Convertible Note	-	3,709
Mortgage Loans	38,856	-
Vehicle and Equipment Loans	1,951	-
Unamortized debt issuance costs	(7,545)	(825)
Total notes payable	\$ 289,925	\$ 40,294
Less: current portion of notes payable	13,771	7,814
Total long-term debt, net	<u>\$ 276,154</u>	<u>\$ 32,480</u>

Credit Facility

On July 2, 2020, the Company and certain subsidiaries and affiliates (collectively, the “Credit Parties”) entered into a Credit Agreement with Chicago Atlantic GIC Advisers, LLC (“Chicago Atlantic”) as administrative and collateral agent for an initial term loan commitment of \$20,000 funded by various investors and an incremental loan not to exceed \$10,000. Such loan bears interest at 15.25% per annum and had an original maturity date of June 30, 2022, which was extended to May 30, 2023 by amendment. The Company incurred \$1,068 of debt issuance costs, which were paid net of loan proceeds and are amortized over the life of the debt instrument.

On May 10, 2021, the Credit Agreement was amended and restated (the “Amended and Restated Credit Agreement”), which granted the Company an additional \$100,000 of credit at an annual interest rate of 9.75%, which increased the Company’s term loan commitments with Chicago Atlantic to \$130,000. The \$100,000 senior secured term loan matures on May 30, 2023, and in accordance with ASC 470, *Debt*, is accounted for as a new credit facility. In addition, the amendment extended the maturity date of the \$30,000 existing initial term loan from June 30, 2022 to May 30, 2023, which qualified as a debt modification pursuant to ASC 470, *Debt*. The existing credit facility had \$644 of unamortized debt issuance costs at the time of the debt modification and is now amortized through May 30, 2023. The Company incurred \$5,132 in issuance costs and debt discounts on the Amended and Restated Credit Agreement, which were paid net of proceeds in May 2021 and are amortized over the life of the debt instrument.

On October 20, 2021, the Credit Parties entered into an agreement to further amend the Amended and Restated Credit Agreement with the agents and the lenders named therein, pursuant to which an additional \$120,000 was funded to the Company resulting in \$250,000 of total term loan commitments funded and outstanding. The \$120,000 term loan bears interest of 8.50% per annum and matures on April 28, 2023. In addition, the amendment includes an option for the Company to request an incremental \$100,000 loan in the future with 8.50% interest per annum, subject to certain restrictions and limitations as defined in the agreement. The amendment also redefined the covenant definition for liquidity to average less than \$20,000 during any fiscal quarter or to be less than \$25,000 as of the last day of each fiscal quarter. In accordance with ASC 470, *Debt*, the \$120,000 loan is accounted for as a new credit facility. The Company incurred debt issuance costs of \$3,679, which were paid net of proceeds in October 2021 and are amortized over the life of the debt instrument.

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10. DEBT *(Continued)*

As of December 31, 2021, the existing credit facilities with Chicago Atlantic provide (i) the term loans thereunder secured by liens on assets of the Credit Parties, which include: (A) the \$30,000 initial term loan bearing interest at a rate of 15.25% per annum; (B) the incremental \$100,000 loan bearing interest at a rate of 9.75% per annum; (C) the incremental \$120,000 loan; and (D) the optional \$100,000 additional loan request bearing interest at a rate of 8.50% per annum; (ii) no principal amortization with the tranches having 18 month maturity dates; (iii) prepayment fees generally of 1% of any principal amount being prepaid; (iv) restrictive covenants which apply to the operations of the Company, including limitations on the ability to incur additional debt, limitations on the granting of liens and the terms of permitted acquisitions; and (v) financial covenants requiring the Company to maintain on a consolidated basis specified levels of liquidity, a minimum quarterly amount of earnings before interest, taxes, depreciation and amortization and a minimum fixed charge coverage ratio as defined below:

- minimum liquidity to average less than \$20,000 during any fiscal quarter or to be less than \$25,000 as of the last day of each fiscal quarter;
- minimum consolidated EBITDA for any fiscal quarter of \$20,000; and
- fixed charge coverage ratio of 1.5 to 1.0 measured at the end of each fiscal quarter.

Secured Promissory Notes

On February 13, 2019, a secured promissory note for \$3,413 was issued to accredited investors requiring the Company to pay interest of 2.57% compounded annually. The note originally matured in February 2020 but was amended in June 2020 and extended for six months to August 2020, subject to four extension dates. The interest rate was also amended to bear interest at 6% from February to June 2020, 11% compounded annually until August 2020, 14% compounded annually until the second extension date of February 2021, and 15.5% compounded annually for additional extension dates. The note has been paid in full and is not outstanding as of December 31, 2021.

On May 15, 2020, a promissory note secured by deed of trust for \$1,474 was issued by Eastern and Pebble, LLC. The note bears interest at 4.00% per annum and matures on September 15, 2021. The note has been paid in full and is not outstanding as of December 31, 2021.

On July 31, 2017, a promissory note for \$2,900 to accredited investors was issued requiring the Company to make monthly payments of \$19 with a balloon payment of \$2,493 due on August 1, 2027, including interest of 7.00% per annum.

On July 2, 2020, a promissory note in the original amount of \$350 was issued by BB Marketing, LLC with a maturity of June 2021 and interest due at 5% in the event of a default. The note has been paid in full and is not outstanding as of December 31, 2021.

In connection with the Agronomed Biologics acquisition, the Company assumed a promissory note with Jonestown Bank and Trust Company for the original principal of \$1,688 issued on March 12, 2021. Interest of 4.00% per annum is due for the first 72 months. The then-current applicable prime rate plus 1.00% per

annum will be accrued on the remaining outstanding principal until the note matures in March 2042. This note is subject to certain restrictive covenants as defined in the agreement.

The Company issued promissory notes to accredited investors in the original principal amount of \$3,670 with simple annual interest of 10% per annum. The notes mature in March 2022 and are an accumulation of seven notes to finance construction of cultivation facilities in Florida and Arizona. There is one related party that accounts for \$150 of the outstanding principal amount as of December 31, 2021.

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10. DEBT *(Continued)*

Convertible Note

On November 25, 2019, a convertible note for \$5,000 was issued to an accredited investor with interest at 1.5% per month, which matured in August 2020 subject to an extension of six months or the completion of a transaction, if earlier. The note had an origination fee of 2%, which was due in full on the maturity date and recorded as a reduction to the carrying value of the note payable. The reduction was recognized on a straight-line basis which approximated the effective interest rate method as interest expense. Principal and interest were due on the maturity date, and a debt discount is reflected as a reduction of the carrying value of the note payable on the Company's consolidated statements of financial position, which is amortized over the term of the note. At the sole option of the lender or upon completion of a transaction, the note was convertible to equity. In connection with the note, the Company issued warrants to purchase 330,000 membership units with an exercise price of \$7.575. The warrants have a three-year term from the date of closing. The Company determined the fair value of the warrants to be \$1,687 using the Black-Scholes valuation model with a volatility of 85%, dividend yield of 0% and risk-free rate of 1.60%. The warrants were exercised for an exercise value of \$2,500 in 2020, and the exercise proceeds were used to relieve accrued interest and principal outstanding at December 31, 2020 of \$6,209. Since the exercise proceeds did not exceed the outstanding note balance, the note payable as of December 31, 2020 was \$3,709. The note was extended for six month and was repaid in full in February 2021.

Mortgage Loans

The Company entered into a mortgage loan with Pioneer Title Agency. The loan bears interest of 6% per annum and matures in March 2023.

On May 14, 2021, the Company acquired The Healing Center, which consisted of three dispensaries in the greater Pittsburgh area. The Healing Center operates the dispensaries on three separate real estate parcels and on September 3, 2021, Verano acquired the THC Real Estate. The Company funded the real estate acquisition through a credit facility with Chicago Atlantic for \$12,650 and interest of 9.75% per annum that matures in September 2023. Total consideration was paid directly to the sellers in the amount of \$12,225. The Company received \$20 in cash proceeds and incurred \$405 in issuance costs and debt discounts on the credit facility, which was paid net of proceeds upon closing. Debt issuance costs were reflected as a reduction of the carrying value of the long-term debt on the Company's consolidated statements of financial position and is amortized to interest expense over the term of the note using the effective interest method. The credit facility is subject to certain restrictive financial covenants requiring the Company to maintain on a consolidated basis a specified level of liquidity, a minimum quarterly amount of earnings before interest, taxes, depreciation and amortization, and a minimum fixed charge coverage ratio that is less restrictive than the Amended and Restated Credit Agreement.

In connection with the 1728 & 52 Old York Road, LLC real estate acquisition, the Company entered into mortgage loan with Abington North Associates, LLC on November 1, 2021 for \$5,500. The loan requires monthly payments of \$138 until maturity on November 1, 2025 and bears interest of 9.5% per annum.

In connection with the 7221 Jessup, LLC real estate acquisition, the Company entered into a commercial mortgage loan on November 16, 2021 with Shore United Bank for \$4,725. The loan accrues interest of 6.0% per annum with a balloon payment of \$3,761 due at maturity on December 1, 2031.

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

In connection to the acquisition of Agronomed Biologics Holdings Inc, the Company assumed a mortgage loan payable to Citadel Federal Credit Union for the original principal amount of 1,100 and interest of 4.15% per annum. The note matures in June 2024.

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VERANO HOLDINGS CORP.

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10. DEBT (Continued)

In connection to the acquisition of AltMed, the Company assumed a mortgage loan payable to Fidelity National Title with interest of 10% per annum that matures in July 2022.

Vehicle and Equipment Loans

The Company has an equipment loan with Sweet Leaf Capital that is paid in monthly installments with an implicit interest rate and matures in January 2022.

The Company has an equipment loan with Constellation NewEnergy, Inc. that is paid in monthly installments with an implicit interest rate and matures in May 2025.

The Company has purchase money loans with Ford Motor Credit and Toyota Commercial Financing that mature in 2022 through 2026 and interest rates ranging from 5.5% to 10% per annum and are secured by the acquired vehicles.

Stated maturities of debt obligations are as follows:

	Principal Payments	Unamortized Debt Issuance Costs	Total Notes Payable
2022	\$ 19,222	\$ 5,451	\$ 13,771
2023	264,841	2,094	262,747
2024	3,120	-	3,120
2025	1,848	-	1,848
2026	260	-	260
Thereafter	8,179	-	8,179

Total	\$ <u>297,470</u>	\$ <u>7,545</u>	\$ <u>289,925</u>
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11. 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 December 31, 2021, the Company had 293,209,166 Subordinate Voting Shares and 311,034 Proportionate Voting Shares for a total of 324,312,566 Subordinate Voting Shares on a converted basis, issued and outstanding. The Company has the following 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.

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VERANO HOLDINGS CORP.

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11. SHARE CAPITAL (Continued)

(ii) Proportionate Voting Shares

Each Proportionate Voting Share is entitled to one hundred votes per share at shareholder meetings of the Company and is exchangeable for one hundred Subordinate Voting Shares. The Company is authorized to issue an unlimited number of Proportionate Voting Shares.

During the year ended December 31, 2021, the shareholders of the Company converted both Proportionate Voting Shares and Subordinate Voting Shares for a net impact of conversion of 1,423,942 Proportionate Voting Shares into 142,394,246 Subordinate Voting Shares.

(b) Stock-Based Compensation

The Company operates equity settled stock-based remuneration plans for its eligible directors, officers, and employees. 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 estimate reliably 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.

In February 2021, the Company established the 2021 Equity Incentive Plan of Verano Holdings Corp. (the “Plan”). The maximum number of RSUs and options issued under the Plan shall not exceed 10% of the Company’s then issued and outstanding shares on an as-converted basis.

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 over three years, and options typically have a life of ten years.

Options

Option grants are determined by the Compensation Committee of the Board with the option price set at no less than 100% of the fair market value of a share on the date of grant.

On February 18, 2021, the Company granted non-qualified incentive Proportionate Voting Share stock options to employees, exercisable at CAD\$3,060⁽¹⁾ on the grant date. The options vest over thirty months to purchase up to an aggregate of 516 Proportionate Voting Shares of the Company.

On May 25, 2021, the Company issued additional non-qualified incentive Proportionate Voting Share stock options to employees, exercisable at CAD\$2,400⁽¹⁾ on the grant date. The options vest over thirty months to purchase up to an aggregate of 54 Proportionate Voting Shares of the Company.

⁽¹⁾ *Such amounts not in Thousands*

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11. SHARE CAPITAL *(Continued)*

No options vested, expired, or were forfeited during 2021.

The Company used the Black-Scholes option pricing model to estimate the fair value of the options at the grant date. This options pricing model requires the application of estimates and assumptions. As the Company became publicly traded in 2021, sufficient historical trading information was not available to determine an expected volatility rate. The volatility rate was based on comparable companies within the Company’s industry.

The aggregate intrinsic value of the stock option units granted was \$795. The Company used the Black-Sholes Option Pricing model to estimate the fair value of the options granted during the year ended December 31, 2021 using the following ranges of assumptions:

	<u>December 31, 2021</u>
Risk free interest rate	0.04% - 0.95%

Expected dividend yield	0%
Expected volatility	124.59%
Expected option life	2.5 years

As permitted in accordance with ASC 718, the Company has made an accounting policy election to account for forfeitures when they occur.

Restricted Stock Units (“RSUs”)

During the year ended December 31, 2021, the Company granted RSUs for 37,936 Proportionate Voting Shares to employees and directors, vesting over six to thirty-six months. The Company recognized 10,485 RSUs vested and 959 RSUs as forfeitures during the year ended December 31, 2021. The weighted average grant date fair value was C\$11.33 with an aggregate intrinsic value of \$794.

The Company recorded expense of \$742 for the year ended December 31, 2021, as share-based compensation related to the Plan.

(c) Warrants

On February 24, 2021, the Company entered into an agreement with Beacon Securities Limited (“Beacon”) and Canaccord Genuity Corp. on behalf of a syndicate of underwriters, pursuant to which the underwriters agreed to purchase, on a bought deal private placement basis, 3,510,000 warrants of the Company (the “Special Warrants”) at a price per Special Warrant of C\$28.50 (USD\$ 22.71) (the “Issue Price”) for aggregate gross proceeds to the Company of \$79,719 (the “Offering”). The Company granted such underwriters an option, exercisable by Beacon on behalf of the underwriters, in whole or in part at any time up to 48 hours prior to the closing date of the Offering, to purchase up to an additional 526,500 Special Warrants at the Issue Price for additional gross proceeds of up to \$11,958. Closing of the Offering occurred on March 11, 2021. The net proceeds of the Offering were used for acquisitions, working capital and general corporate purposes. Each Special Warrant entitles its holder to receive one Subordinate Voting Share. All Special Warrants were exercised on June 24, 2021 and are no longer outstanding.

In connection with convertible notes issued on November 25, 2019, Verano Holdings Corp. issued warrants to purchase 990,000 common shares with an exercise price of \$7.575 per share. The warrants have a three year term from the date of the issuance. The Company determined the fair value of the warrants to be \$5,062 using the Black-Scholes valuation model with a volatility of 85%, dividend yield of 0% and risk-free rate of 1.60%. A debt discount is reflected as a reduction of the carrying value of the note payable on the Company’s consolidated statements of financial position and is being amortized over the term of the notes. Amortization of the debt issuance cost for warrants was \$4,572 and \$656 for the years ended December 31, 2020 and December 31, 2019, respectively.

VERANO HOLDINGS CORP.

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11. SHARE CAPITAL (Continued)

In August 2018, Verano Holdings, LLC issued a warrant for 424,242 Class B units at an exercise price of \$7.14, with a term of 5 years in connection with a credit facility (Note 10). The Company determined the fair value of the warrant to be \$2,662 using the Black-Scholes valuation model with a volatility of 85%, dividend yield of 0%, and risk-free rate of 2.87%. As there were no proceeds received in connection with the credit facility, the fair value was recorded as debt issuance costs on the consolidated balance sheet. These costs

were amortized over the period of expected availability through December 31, 2018. The balance of the debt issuance costs associated with such warrant was fully amortized in 2018. The Company determined the fair value of the incremental units to be \$2,290. Verano Holdings, LLC amended the warrant agreement in 2019 that resulted in the warrants being exercisable for 751,973 Class B units at an exercise price of \$4.03 per share. Such amended agreement preserves the presentation as equity and was presented as such as of December 31, 2019.

In connection with a subscription agreement offering in October of 2018, Verano Holdings, LLC entered into an agency agreement with Clarus Securities, Inc., (“Clarus”) pursuant to which Clarus would broker the subscription of up to \$12,000 of Class B units of Verano Holdings, LLC. On or about February 7, 2019, Verano Holdings, LLC and Clarus mutually agreed to terminate the agency agreement and any rights which may have arisen thereunder, in consideration for which Verano Holdings, LLC granted Clarus’s affiliate warrants for 100,000 Class B units at a price of \$21.73 per Class B unit. Clarus’s affiliate, Clarus Securities SIV, Inc., exercised the warrants in full on February 11, 2019 for aggregate proceeds to Verano Holdings, LLC of \$2,173.

The Company computes basic earnings per share by dividing net income available to its shareholders by the weighted-average number of shares of its stock outstanding, on an as converted basis. The Company weighs shares issued for the portion of the period that they were outstanding. The Company’s diluted earnings per share reflect the impacts of the Company’s potentially dilutive securities, which include the Company’s equity compensation awards.

12. INCOME TAXES

The Company accounts for income taxes in accordance with ASC 740 – *Income Taxes*, under which deferred tax assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying values of assets and liabilities and the respective tax bases.

Verano is incorporated in British Columbia, Canada but maintains all of its operations in the United States. Due to this inverted entity structure, the Company is subject to both US and Canadian taxation.

For the years ended December 31, 2021, 2020 and 2019, income taxes expense consisted of:

	Years Ended December 31,		
	2021	2020	2019
Current:			
Federal	\$ 103,515	\$ 29,627	\$ 7,935
State	32,922	11,130	2,721
Foreign	-	-	-
Total Current:	<u>136,437</u>	<u>40,757</u>	<u>10,656</u>
Deferred:			
Federal	\$ (24,937)	\$ 1,073	\$ (253)
State	(7,373)	466	(70)
Foreign	-	-	-
Total Deferred	<u>(32,310)</u>	<u>1,539</u>	<u>(323)</u>
Total	<u>\$ 104,127</u>	<u>\$ 42,296</u>	<u>\$ 10,333</u>

VERANO HOLDINGS CORP.

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12. INCOME TAXES (Continued)

The difference between the income tax expense for the years ended December 31, 2021, 2020 and 2019 and the expected income taxes based on the statutory rate applied to earnings (loss) arises as follows:

	Years Ended December 31,		
	2021	2020	2019
Income/(Loss) before Income Taxes	\$ 91,869	\$ 82,452	\$ (8,491)
Statutory Tax rates	21%	21%	21%
Expense/(Recovery) based on Statutory Rates	19,292	17,315	(1,784)
Other Permanent Difference	48	(1,309)	-
Nondeductible 280E	50,520	10,663	7,018
Penalties	5,319	-	-
Noncontrolling interests	938	3,506	1,795
State	24,942	11,277	3,304
Book/Tax Basis Acquired Intangibles	-	2,445	-
Prior Year True Up	3,068	(1,601)	-
Other Differences	-	-	-
Income Tax Expense	<u>\$ 104,127</u>	<u>\$ 42,296</u>	<u>\$ 10,333</u>

Income taxes paid for the years ended December 31, 2021, 2020, and 2019 were \$27,962, \$10,237, and \$569 respectively.

As the Company operates in the cannabis industry, it is subject to the limitations of IRC 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 IRC Section 280E. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

Deferred taxes are provided using an asset and liability method whereby deferred tax assets are recognized based on the rates at which they are expected to reverse in the future. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. The effect on deferred tax assets and liabilities of a change in tax law or tax rates is recognized in income in the period that enactment occurs.

At December 31, 2021 and December 31, 2020, the components of deferred tax assets and (liabilities) were as follows:

	Years Ended December 31,	
	2021	2020
Deferred Tax Assets		
Lease Liabilities	\$ 515	\$ 549
Loyalty Point	730	752
Total Deferred Tax Assets	<u>1,245</u>	<u>1,301</u>
Deferred Tax Liabilities		
Operating Right of Use Assets	\$ (513)	\$ (484)
Intangibles	(263,716)	(15,641)
Total Deferred Tax Liabilities	<u>(264,229)</u>	<u>(16,125)</u>
Net Deferred Tax Liabilities	<u>\$ (262,984)</u>	<u>\$ (14,824)</u>

The Company operates in a number of tax jurisdictions and are subject to examination of its income tax returns by tax authorities in those jurisdictions who may challenge any item on these returns. Because the tax

matters challenged by tax authorities are typically complex, the ultimate outcome of these challenges is uncertain.

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12. INCOME TAXES *(Continued)*

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of December 31, 2021 and 2020, the Company had no unrecognized tax benefits. There are no positions for which it is reasonably possible that the uncertain tax benefit will significantly increase or decrease within twelve months. During the period ending December 31, 2021, the Company recorded \$5,319 in penalties and interest related to outstanding income tax liabilities, \$2,415 relating to the 2021 tax year and \$2,904 relating to the 2020 tax year. The Company files income tax returns in the US, various state jurisdictions, and Canada, which jurisdictions have varying statutes of limitations. The US federal statute of limitation remains open for the 2018 tax year to the present. The state income tax returns generally remain open for the 2018 tax year through the present. Net operating loss arising prior to these years are also open to examination if and when utilized.

13. LEASES

In February 2016, The FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASC 842"), which requires lessees to put most leases on the balance sheet but recognize expense on the income statement in a manner similar to current accounting. On January 1, 2019, the Company adopted the standard and all related amendments, and practical expedients, excluding hindsight, using the optional transition method (modified retrospective approach) applied to leases at the adoption date. Under the

modified retrospective approach, comparative periods have not been restated and continue to be reported under the accounting standards in effect for those periods.

Operating lease right of use ("ROU") assets and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. Upon adoption of ASC 842, ROU assets were adjusted for deferent rent and prepaids as of January 1, 2019. Lease expense is recognized on a straight-line basis over the expected lease term for operating leases. The Company's incremental borrowing rate is used in determining the present value of future payments at the commencement date of the lease, or for the adoption of ASC 842 at January 1, 2019. Balances related to operating leases are included in ROU assets and lease liabilities on the consolidated balance sheet.

Leases with an initial term of twelve months or less are not recorded on the balance sheet. Certain leases require payments for taxes, insurance, and maintenance, 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 provision that expire through 2037. Certain leases also contain renewal provision and provide for rent abatement and escalating payments.

During the years ended December 31, 2021, 2020, and 2019, the Company recorded approximately \$9,140, \$2,246, and \$1,889 in operating lease expense, of which \$804, \$695 and \$635 was included in cost of goods sold for the years ended December 31, 2021, 2020 and 2019, respectively.

Other information related to operating leases as of and for the years ended December 31, 2021, 2020, and 2019 were as follows:

	2021	2020	2019
Weighted average remaining lease term	8.52	6.66	6.08
Weighted average discount rate	8.11%	8.81%	8.0%

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VERANO HOLDINGS CORP.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021, 2020 and 2019

(\$ in Thousands except shares and per share amounts)

13. LEASES (Continued)

Maturities of lease liabilities for operating leases as of December 31, 2021 were as follows:

Year Ending December 31:	
2022	11,457
2023	11,024
2024	10,348
2025	9,717
2026	8,818
Thereafter	38,177
Total Lease Payments	89,541
Less: Interest	(26,166)
Present Value of Lease Liability	63,375

14. CONTINGENCIES

(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. At December 31, 2021 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, except as disclosed in these consolidated financial statements. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

(b) COVID-19 Uncertainty

The novel coronavirus (and various strains thereof) commonly referred to as "COVID-19" was initially identified in December 2019 in Wuhan, China. On J March 11, 2020, the spread of COVID-19 was declared a pandemic by the World Health Organization. The outbreak spread throughout Europe, the Middle East and North America, causing companies and various international jurisdictions to impose vaccine mandates and restrictions such as quarantines, business closures, social distancing and travel restrictions, which resulted in material disruption to businesses in the US and globally and an economic slowdown.

The duration and severity of the business disruptions and related financial impact, as well as rising inflation and the impact of political unrest in Ukraine cannot reasonably be estimated at this time. As a result, it is possible that estimates in the Company's financial statements will change in the near term as a result of recent economics and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. For the time being and until economies stabilize, the Company has shifted its strategic approach and the manner in which it operates its business to continue providing high-quality products to its patients and customers, and has put forth initiatives to ensure supply chains and compliance with governmental mandates regarding COVID-19.

These initiatives have allowed the Company to date to operate mostly uninterrupted and to implement its business continuity plan. Going forward, the extent of the impact of COVID-19 and economic uncertainty on the Company's operational and financial performance will depend on various developments, including the impact on customers, employees and vendors, all of which are uncertain and cannot be predicted.

(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 recreational 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 or any of its subsidiaries. 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 decriminalize 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's subsidiaries operate or that such legislation will otherwise be favorable to the Company and its business.

(\$ in Thousands except shares and per share amounts)

15. SEGMENTS

The Company conducts and manages its business through two reportable segments, representing the major lines of the 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:

	Year Ended December 31,		
	2021	2020	2019
<i>Revenue, net of discounts</i>			
Cultivation (Wholesale)	\$ 217,739	\$ 156,223	\$ 46,068
Retail	591,591	88,470	22,925
Intersegment Eliminations	(71,480)	(16,163)	(3,025)
Total revenue, net of discounts	<u>\$ 737,850</u>	<u>\$ 228,530</u>	<u>\$ 65,968</u>
<i>Depreciation and amortization</i>			
Cultivation (Wholesale)	\$ 54,460	\$ 8,256	\$ 3,394
Retail	41,784	2,278	2,288
Total depreciation and amortization	<u>\$ 96,244</u>	<u>\$ 10,534</u>	<u>\$ 5,682</u>
<i>Capital expenditures</i>			
Cultivation (Wholesale)	\$ 91,549	\$ 45,699	\$ 46,930
Retail	56,961	14,454	12,111
Total capital expenditures	<u>\$ 148,510</u>	<u>\$ 60,153</u>	<u>\$ 59,041</u>
<i>Income taxes</i>			
Cultivation (Wholesale)	\$ 53,725	\$ 21,989	\$ 4,011
Retail	50,402	20,307	6,322
Total income taxes	<u>\$ 104,127</u>	<u>\$ 42,296</u>	<u>\$ 10,333</u>
<i>Net income (loss)</i>			
Cultivation (Wholesale)	\$ 58,182	\$ 69,706	\$ 12,707
Retail	(72,858)	(31,305)	(30,980)
Total net income (loss)	<u>\$ (14,676)</u>	<u>\$ 38,401</u>	<u>\$ (18,273)</u>

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VERANO HOLDINGS CORP.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021, 2020 and 2019

(\$ in Thousands except shares and per share amounts)

	As of December 31,		
	2021	2020	2019
<i>Assets</i>			
Cultivation (Wholesale)	\$ 1,241,508	\$ 173,058	\$ 72,455
Retail	<u>1,304,215</u>	<u>156,593</u>	<u>108,388</u>

Total assets	\$	<u>2,545,723</u>	\$	<u>329,651</u>	\$	<u>180,843</u>
<i>Liabilities</i>						
Cultivation (Wholesale)	\$	217,180	\$	28,760	\$	29,502
Retail		<u>849,808</u>		<u>147,493</u>		<u>39,313</u>
Total liabilities	\$	<u>1,066,988</u>	\$	<u>176,253</u>	\$	<u>68,815</u>

For the purposes of testing goodwill, the Company has identified 12 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. All revenues are derived from customers domiciled in the United States and all assets are located in the United States.

16. RELATED PARTY TRANSACTIONS

(a) Due from Related Parties

As of December 31, 2020, amounts due from related parties were comprised of balances due from investors of \$108. These amounts are due on demand and did not have formal contractual agreements governing payment terms or interest. As of December 31, 2021, such amounts have been repaid and the Company did not have any amounts due from related parties. Other related party transactions are described through these consolidated financial statements. Refer to Notes 8 and 10 for additional details of related party transactions.

(b) Due to Related Parties

As of December 31, 2020 amounts due to related parties were comprised of advances to investors payable totaling \$45. Advances did not have formal contractual agreements governing payment terms or interest. As of December 31, 2021, the Company did not have any amounts due to related parties. Refer to Notes 8 and 10 for additional details of related party transactions.

(c) Other

The Company issued promissory notes to accredited investors in the original principal amount of \$3,670 with simple annual interest of 10% per annum. The notes mature in March 2022 and are an accumulation of seven notes to finance construction of cultivation facilities in Florida and Arizona. There is one related party that accounts for \$150 of the outstanding principal amount as of December 31, 2021.

17. 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 contract liability until customers redeem their points for discounts on cannabis and vape 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, which is calculated based on a standalone selling price that ranges between \$0.05 and \$0.08 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) and expects the remaining outstanding loyalty points will be redeemed within one year.

As of December 30, 2021, there were 111,475,459⁽¹⁾ points outstanding, with an approximate value of \$2,620 which is included in accrued liabilities. The Company is restructuring the loyal program in 2022. In states where the known points expired, the actual redemption value was applied.

As of December 31, 2020, there were 42,273,800⁽¹⁾ points outstanding, with an approximate value of \$2,061.

(1) Such amounts not in thousands.

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VERANO HOLDINGS CORP.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021, 2020 and 2019
(\$ in Thousands except shares and per share amounts)

18. VARIABLE INTEREST ENTITIES

The following table presents the summarized financial information about the Company’s consolidated variable interest entities (“VIEs”) and, voting interest entities (“VOEs”), which are included in the consolidated balance sheets as of December 31, 2021 and 2020. These entities were determined to be VIEs and VOEs, respectively as the Company possesses the ability to direct control over the operations through MSAs.

	December 31, 2021			December 31, 2020	
	Consolidated VIE (1)	Consolidated VOE (2)	Non- Controlling Interest (3)	Consolidated VIE (1)	Non- Controlling Interest (3)
Current Assets	\$ 40,015	\$ 20,464	\$ 3,030	\$ 23,141	\$ 3,935
Due To/(From)	(25,275)	14,228	(448)	(66,353)	(1,419)
Non-Current Assets	204,421	226,108	5,162	145,618	6,674
Current Liabilities	31,599	22,659	1,335	18,319	1,701
Non-Current Liabilities	45,120	45,603	753	7,733	973
Noncontrolling Interest	-	-	2,951	-	6,237
Equity attributable to Verano Holdings, Corp.	142,442	192,538	2,705	76,354	279

- (1) The Company possesses the ability to direct activities through management services agreements (“MSAs”) to consolidate the VIEs.
- (2) The Company consolidates VOEs through ASC 810 - *Consolidation*. Pursuant to the Arizona Medical Marijuana Act passed in 2012, cannabis companies in Arizona were initially required to operate under a non-profit structure. The Company has the ability to direct activities through MSAs and has control of the non-profits governing body.
- (3) Other Non-Controlling Interest are consolidated VIEs in accordance with ASC 810 through MSAs.

Noncontrolling Interest

On July 1, 2021, VHGRX Holdings, LLC, a Delaware limited liability company (“VHGRX”) and an indirect subsidiary of the Company, acquired 100% of the membership interests of Green RX, LLC, (“GreenRx”),

which holds a dispensary license in Ohio. The aggregate purchase price for such acquisition totaled approximately \$12,770 that was comprised of a prepaid deposit of \$1,644, 310 Proportionate Voting Shares valued at approximately \$506, and \$10,620 of cash payable in three installments. As of December 31, 2021, the present value of unpaid deferred consideration of \$2,780 is included in the acquisition price payable balance on the Company's consolidated balance sheets and is payable in January and July 2022.

On March 8, 2021, the Company acquired individually insignificant non-controlling interests in Maryland Natural Treatment Solutions, LLC for an approximate aggregate purchase price of \$10.

During 2020, the Company entered into various agreements to acquire non-controlling interests in certain entities. As a result of the transactions, a Company affiliate now owns 100% of the membership interests in each entity. The aggregate purchase price for the membership interests totaled approximately \$6,900. The Company recorded these transactions as distributions to members and all non-controlling interests in these entities were transferred to members' equity.

As of January 1, 2020, the Company had a 50% non-controlling interest in NatureX, LLC. The Company acquired 40% of the non-controlling interest on July 31, 2020 and acquired the remaining 10% on August 12, 2020 for an aggregate purchase price of \$1,300 of which \$200 is included in the acquisition price payable balance as of December 31, 2020.

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VERANO HOLDINGS CORP.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021, 2020 and 2019

(\$ in Thousands except shares and per share amounts)

18. VARIABLE INTEREST ENTITIES (Continued)

On July 29, 2020, the Company acquired the remaining 25% non-controlling interest in Four Daughters Compassionate Care, Inc. for \$1.1 million.

In 2020, the Company acquired the remaining non-controlling interest in Healthway Services of West Illinois, LLC, for an aggregate purchase price of \$3,900 which is included in the acquisition price payable balance as of December 31, 2020.

In 2020, the Company acquired individually insignificant non-controlling interests for an approximate aggregate purchase price of \$531 in Class B units (*Refer to FN 11 – Share Capital*).

19. SUBSEQUENT EVENTS

(a) Acquisitions

Goodness Growth Holdings

On February 1, 2022, the Company announced that it had entered into a definitive agreement to acquire all of the issued and outstanding equity interests in Goodness Growth Holdings, Inc. ("Goodness"), a vertically integrated company with licenses in New York, Minnesota, New Mexico, Arizona and Maryland. The transaction includes 18 active dispensaries; five cultivation and processing facilities; a research and development facility; and the Vireo, 1937, LiteBud, Kings & Queens, Hi-Color, and Amplifi product brand. Under the terms of the arrangement, the number of Subordinate Voting Shares to be issued in the transaction is based on a fixed exchange ratio with each outstanding Goodness share (on an as converted to Goodness subordinate voting shares basis) will receive 0.22652 of a Subordinate Voting Share. The terms of

Goodness's outstanding stock options and restricted stock units will be adjusted to substitute Subordinate Voting Shares therein based on the fixed exchange ratio.

420 Capital Management, LLC (Greengate)

On March 11, 2022, the Company consummated the acquisition of 420 Capital Management, LLC, which operates two active dispensaries in Lombard and Rogers Park, Illinois. Total consideration included \$7,448 payable in cash and \$13,813 payable in Subordinate Voting Shares.

(b) Dispositions

Canna Cuzzos

In 2015, Verano entered a MSA and an option to purchase a 40% ownership interest in V Waldorf, LLC, the parent holding company of Canna Cuzzos, LLC ("Canna Cuzzos"), a Zen Leaf branded dispensary located in Waldorf, Maryland. On January 31, 2022, the ownership of the parent holding company was sold to a third party and the MSA with Canna Cuzzos was terminated.

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VERANO HOLDINGS CORP.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021, 2020 and 2019

(\$ in Thousands except shares and per share amounts)

19. SUBSEQUENT EVENTS *(Continued)*

ILDISP

On February 28, 2022, the Company consummated the disposition of its 50% ownership interest in ILDISP, LLC to the other 50% member in exchange for a combination of cash and stock of the other member.

(c) Financing

On March 1, 2022, the Credit Parties entered into an agreement to further amend the Amended and Restated Credit Agreement with the agents and lenders named therein, pursuant to which an additional \$100,000 was funded to the Company resulting in \$350,000 of total term loan commitments funded and outstanding. The \$100,000 term loan bears interest at a rate of 8.50%.

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

**COMBINED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

December 31, 2020 and 2019

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March 26, 2021

To the Board of Managers
Plants of Ruskin GPS, LLC
dba AltMed Florida and Affiliate
Apollo Beach, Florida

Independent Auditor's Report

Report on the Audit of the Combined Financial Statements

We have audited the accompanying combined financial statements of Plants of Ruskin GPS, LLC dba AltMed Florida and Affiliate (the Company), which comprise the combined balance sheets as of December 31, 2020 and 2019, and the related combined statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the combined financial statements in the United States of America, together with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with those requirements, respectively.

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

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is responsible for evaluating whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued, and for disclosing, as applicable, matters related to this evaluation unless the liquidation basis of accounting is being used by the entity.

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. We design audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We will also obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of combined the financial statements.

As part of an audit, we exercise professional judgement and maintain professional skepticism throughout the audit. We also conclude on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether substantial doubt exists related to the Company's ability to continue as a going concern. If we conclude that substantial doubt exists, we are required to draw attention in our auditor's report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial positions of Plants of Ruskin GPS, LLC dba AltMed Florida and Affiliate as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Cannabis Laws

As discussed in Note M to the combined financial statements, the Company operates in the cannabis industry which is legal in the State of Florida but illegal under United States federal law. Our opinion is not modified with respect to this matter.

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Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 18 to 21 is presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the combined financial statements as a whole.

/s/ Hill, Barth & King LLC

Certified Public Accountants

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

COMBINED BALANCE SHEETS

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,577,455	\$ 4,985,739
Accounts receivable	80,145	452,828
Inventory	13,639,351	5,252,829

Other current assets	1,285,983	744,969
TOTAL CURRENT ASSETS	28,582,934	11,436,365
PROPERTY AND EQUIPMENT, NET	74,418,774	38,711,368
DEPOSITS	891,614	530,883
	<u>\$103,893,322</u>	<u>\$ 50,678,616</u>
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 15,982,661	\$ 5,625,092
Current portion of lease liabilities	963,050	452,597
Current portion of long-term debt	209,889	75,931
TOTAL CURRENT LIABILITIES	17,155,600	6,153,620
LONG-TERM LIABILITIES		
Lease liabilities	15,233,450	8,414,741
Notes payable - related parties	3,670,000	2,500,000
Long-term debt	732,414	307,565
TOTAL LIABILITIES	36,791,464	17,375,926
MEMBERS' EQUITY	67,101,858	33,302,690
	<u>\$103,893,322</u>	<u>\$ 50,678,616</u>

See accompanying notes to combined financial statements

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

COMBINED STATEMENTS OF OPERATIONS

Years ended December 31, 2020 and 2019

	2020	2019
OPERATING INCOME		
Sales	\$105,660,570	\$ 39,371,011
Cost of sales	23,360,353	11,982,151
GROSS PROFIT	82,300,217	27,388,860
OPERATING EXPENSES		
Advertising	981,872	607,327
Amortization	0	343,393
Contract labor and consulting	633,799	456,152
Depreciation	4,475,627	2,557,265
Insurance	2,173,843	958,231
Payroll - officers	340,000	321,875
Payroll - other	20,587,619	7,736,222
Other operating expenses	11,791,410	5,907,236
Less direct costs allocated to inventory and cost of sales	(19,737,803)	(9,788,609)

TOTAL OPERATING EXPENSES	21,246,367	9,099,092
INCOME FROM OPERATIONS	61,053,850	18,289,768
OTHER INCOME (EXPENSES)		
ATM commissions	109,017	35,869
Interest expense	(1,423,038)	(334,064)
Other expense	59,339	(7,178)
	(1,254,682)	(305,373)
NET INCOME	\$ 59,799,168	\$ 17,984,395

See accompanying notes to combined financial statements

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

COMBINED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Years ended December 31, 2020 and 2019

	<u>MEMBERSHIP UNITS</u>	<u>MEMBERS' EQUITY</u>	<u>TOTAL</u>
Balance at January 1, 2019	\$ 23,286,337	\$ (7,224,354)	\$ 16,061,983
Adoption of ASC 842, <i>Leases</i>	0	(43,688)	(43,688)
Distributions paid to members	0	(700,000)	(700,000)
Net income	0	17,984,395	17,984,395
Balance at December 31, 2019	<u>23,286,337</u>	<u>10,016,353</u>	<u>33,302,690</u>
Distributions paid to members	0	(26,000,000)	(26,000,000)
Net income	0	59,799,168	59,799,168
Balance at December 31, 2020	<u>\$ 23,286,337</u>	<u>\$ 43,815,521</u>	<u>\$ 67,101,858</u>

See accompanying notes to combined financial statements

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

COMBINED STATEMENTS OF CASH FLOWS

Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>RECONCILIATION OF NET INCOME TO NET CASH</u>		
<u>PROVIDED BY OPERATING ACTIVITIES</u>		
Net income	\$ 59,799,168	\$ 17,984,395
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,475,627	2,900,658
Changes in assets and liabilities:		
Decrease in accounts receivable	372,683	39,532

Increase in inventory	(8,386,522)	(2,647,202)
Increase in other current assets	(541,014)	(486,346)
Increase in deposits	(360,731)	(262,375)
Increase in accounts payable and accrued expenses	10,944,342	2,778,348
NET CASH PROVIDED BY OPERATING ACTIVITIES	66,303,553	20,307,010
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of property and equipment	(32,045,814)	(18,052,535)
NET CASH USED IN INVESTING ACTIVITIES	(32,045,814)	(18,052,535)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Member distributions	(26,000,000)	(700,000)
Payments on notes payable - related parties	(2,500,000)	(935,340)
Issuance of notes payable - related parties	3,670,000	0
Payments on long-term debt	(145,005)	0
Payments on lease liabilities	(691,018)	0
Borrowings on long-term debt	0	283,700
NET CASH USED IN FINANCING ACTIVITIES	(25,666,023)	(1,351,640)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,591,716	902,835
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of year	4,985,739	4,082,904
End of year	\$ 13,577,455	\$ 4,985,739
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</u>		
Cash paid during the year for interest	\$ 1,423,038	\$ 47,100
Acquisition of vehicles in exchange for long-term debt	\$ 703,812	\$ 85,340
Construction costs paid for on account	\$ 586,773	\$ 2,331,072
Additions of right-of-use assets	\$ 8,020,181	\$ 7,060,833

See accompanying notes to combined financial statements

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A - NATURE OF OPERATIONS

Organization and Nature of Business:

Plants of Ruskin GPS LLC (“GPS”) and RVC 360 LLC (“RVC”), (collectively, the Company) are limited liability companies organized in the United States (“U.S.”) in 2017 and 2015, respectively. GPS owns in whole its subsidiary Plants of Ruskin LLC (“POR”), a limited liability company, located in the State of Florida, that grows, cultivates, extracts, manufactures, and sells medical cannabis products. RVC engages in real estate activities that provide the facilities where Plants of Ruskin LLC operates. The Company does business as AltMed Florida and operates multiple dispensaries throughout the state of Florida.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Consequently, revenue and expenses are accounted for using the accrual basis.

Basis of Combination:

The accompanying combined financial statements include entities, which are controlled through common control. Control exists when the Company has the power, directly or indirectly, to govern financial and operating policies of an entity and be exposed to variable returns from its activities.

The combined financial statements include the accounts of GPS, its wholly-owned subsidiary POR, and RVC. All significant intercompany balances and transactions were eliminated in combination.

Cash and Cash Equivalents:

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable:

The Company's revenue consists primarily of retail sales to medical cannabis patients throughout the state of Florida. The Company received a waiver from the state of Florida to also sell extracted oil and flower to other medical cannabis licensees. The potential risk is limited to the amounts recorded in the combined financial statements. The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. Uncollectible amounts are charged to operations when determined uncollectible. The Company did not charge any uncollectible amounts to operations in 2020 and 2019.

Inventory:

Inventory consists primarily of raw materials, work-in-process, and finished goods and is stated at the lower of cost or net realizable value. Due to state and federal regulations, the Company tracks its cannabis products including raw materials from seed to finished goods. Work-in-process consists of raw materials, direct labor, and related production overhead.

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased Assets:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assess whether:

- The contract involves the use of an identified asset;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased Assets (Continued):

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's

estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognizes the lease payments associated with the leases as an expense on a straight-line basis over the lease term.

Property and Equipment:

Property and equipment are recorded at cost, net of depreciation. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is computed using the straight-line method over the assets' estimated useful life. Asset classes and their respective useful lives are as follows:

	<u>YEARS</u>
Buildings	39
Leasehold improvements	5-39
Machinery and equipment	5-15
Furniture and fixtures	5-7
Lab equipment	5
Computer equipment	5
Vehicles	5

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if appropriate. An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in operations in the year the asset is derecognized.

Revenue Recognition:

Revenue is recognized by the Company in accordance with ASC 606, Revenue from Contracts with Customers. Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued):

In order to recognize revenue under ASC 606, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;

- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract;
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Under ASC 606, revenues from the sale of cannabis are generally recognized at the point in time when control over the goods has been transferred to the customer. Payment is typically due upon transferring goods to the customer or within a specified time period permitted under the Company's credit policy.

Revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer.

Advertising:

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2020 and 2019 were \$981,872 and \$607,327, respectively.

Income Taxes:

The Company has elected to be taxed as a partnership for U.S. federal and state income tax. Members are taxed on a proportionate share of the Company's taxable income. Therefore, no provision or liability for U.S. federal or state income taxes has been included in the combined financial statements. Any trade or business which is trafficking in a controlled substance under Schedule I or Schedule II of the Controlled Substances Act is prohibited from claiming any deductions or credits against such business's income for the year. Pursuant to Section 280E of the U.S. Internal Revenue Code of 1986 as amended, the only available tax deduction for businesses engaged in the cultivation and production of medical cannabis is a deduction for cost of goods sold.

Pursuant to the Bipartisan Act of 2015, if selected for an audit, the streamlined audit rules for partnerships allows the U.S. IRS to assess and collect taxes at the partnership level. Additional tax assessed would be paid by the partnership at the highest individual or corporate tax rate. As of December 31, 2020 and 2019, the Company maintained no uncertain tax positions nor were interest or penalties recognized during the period under audit.

Use of Estimates:

The preparation of combined financial statements in accordance with U.S generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements:

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASC 842”), which will replace ASC 840, “Leases”. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. For private companies, the standard will be effective for annual periods beginning on or after December 15, 2021, with earlier application permitted. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company has effectively applied the modified retrospective approach and noted the impact of the new standard on the combined statements of changes in members’ equity.

Subsequent Events:

Management evaluated all activity of the Company through March 26, 2021, the date the combined financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure in the combined financial statements or notes, except as described below.

Subsequent to the year end, the Company has continued construction on the expansion of its cultivation and manufacturing facilities. Total capital expenditures for the expansion of such facilities through year end 2021 is expected to be approximately \$22,000,000. As of the date of this report, the Company has completed construction on the facility and the contract balance has been substantially paid in full.

Subsequent to the year end, the Company opened two more dispensaries in Florida at a total cost of approximately \$1,200,000.

On November 11, 2020, the Company entered into an agreement with Verano Holdings to sell its membership units for total consideration net of fees totaling \$370,881,750 consisting of 8,534,521.2139 Class A shares and 256,035.6344 Class B shares. This transaction was finalized subsequent to the year end.

NOTE C - CONCENTRATIONS

Financial instruments which potentially subject the Company to concentration of credit risks include cash and cash equivalents in financial institutions, which under U.S. federal law, money obtained from activities related to the marijuana industry cannot be federally insured. At December 31, 2020 and 2019, the Company had balances of \$13,577,455 and \$4,985,739, respectively, in uninsured cash and cash equivalents in financial instruments.

The Company had two major suppliers with significant outstanding accounts payable balances of approximately 54% at December 31, 2020. The Company had three major suppliers with significant outstanding accounts payable balances of approximately 53% at December 31, 2019.

PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

NOTE D - INVENTORY

Inventory at December 31, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Raw materials	\$ 1,717,832	\$ 1,631,427
Work-in-process	8,217,661	2,056,167

Finished goods	3,703,858	1,565,235
TOTALS	\$ 13,639,351	\$ 5,252,829

NOTE E - OTHER CURRENT ASSETS

Other current assets at December 31, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Prepaid expenses	\$ 1,245,237	\$ 585,644
Related party receivables	40,246	156,225
Other receivables	500	3,100
TOTALS	\$ 1,285,983	\$ 744,969

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 28,725,581	\$ 21,311,063
Machinery and equipment	12,366,444	3,948,076
Buildings	19,166,872	1,989,547
Lab equipment	2,054,112	1,927,148
Computer equipment	3,422,752	1,429,165
Land	467,661	391,661
Furniture and fixtures	3,247,224	1,274,095
Construction in process	11,877,957	9,217,850
Vehicles	1,246,781	474,380
	82,575,384	41,962,985
Less accumulated depreciation	8,156,610	3,251,617
NET PROPERTY AND EQUIPMENT	\$ 74,418,774	\$ 38,711,368

Depreciation expense was \$4,475,627 and \$2,557,265 for the years ended December 31, 2020 and 2019, respectively.

PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

NOTE G - INTANGIBLE ASSETS

Intangible assets consist of legal fees and other costs incurred to obtain the medical marijuana license required to operate in the State of Florida. Intangible assets are amortized over the license period of two years. Intangible assets totaled \$1,177,348 and are fully amortized for the years ended December 31, 2020 and 2019.

NOTE H - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2020 and 2019 are summarized as follows:

<u>2020</u>	<u>2019</u>
-------------	-------------

Accounts payable - trade	\$ 2,403,997	\$ 2,707,203
Accrued expenses	11,419,349	2,534,935
Payroll liabilities	2,015,500	328,440
Accrued paid time-off	137,030	52,662
Other accrued expenses	6,785	1,852
TOTALS	<u>\$ 15,982,661</u>	<u>\$ 5,625,092</u>

NOTE I - LONG-TERM DEBT

Long-term debt at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Notes payable to Ford Motor Credit, monthly payments totaling \$8,952 including interest ranging from 7.7%-10.9%, maturing through November 2024, secured by vehicles.	\$ 942,303	\$ 383,496
Notes payable to related parties, totaling \$3,670,000, not including simple annual interest of 10%, maturing through March 2022.	3,670,000	0
TOTAL DEBT	<u>4,612,303</u>	383,496
Less current portion	<u>209,889</u>	75,931
	<u>\$ 4,402,414</u>	<u>\$ 307,565</u>

Maturities related to this debt are as follows:

2021	\$ 209,889
2022	3,896,936
2023	233,621
2024	203,743
2025	68,114
TOTAL	<u>\$ 4,612,303</u>

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

NOTE J - MEMBERS' EQUITY

Both GPS and RVC are limited liability companies organized in the State of Florida. Members' liability is limited to their investment in each company. GPS and RVC each have 10,000,000 shares of membership units authorized and 9,999,998 issued and outstanding, totaling 20,000,000 membership units authorized and 19,999,996 issued and outstanding. GPS and RVC each have a single class of membership units. However, as described in Note K, the Company's founders are entitled to a payment and/or debt repayment in the aggregate of \$7,500,000 from the contributed capital before any distributions are payable by the Company to other members.

NOTE K - RELATED PARTY TRANSACTIONS

The Company shares administrative offices and administrative personnel with an entity controlled by a related party. The Company pays a month-to-month rent expense of \$5,000. As of December 31, 2020 and 2019, the related party did not expect repayment of any additional costs incurred.

The operating agreement and subscription agreements of both GPS and RVC state the Company's founders are entitled to a payment and/or debt repayment in the aggregate of \$7,500,000 from the contributed capital before any distributions are payable by the Company to other members. The notes are payable on demand, bear no stated interest rate, and are unsecured. One founder agreed to forego payment in exchange for interest totaling \$21,000 and \$25,500 for the years ended December 31, 2020 and 2019 **and 2019**, respectively. As of December 31, 2020 and 2019, the founder notes payable totaled \$0 and \$2,500,000, respectively. The \$7,500,000 founder note payable was paid in full as of December 31, 2020.

The Company received funding in the aggregate of \$3,670,000 from eight related parties for the build out of the cultivation facility in Apollo Beach. The two-year notes are payable on demand at month 18, bear 10% simple annual interest, interest paid annually.

NOTE L - LEASES

As of December 31, the Company's lease liabilities consisted of the following:

	2020	2019
Balance, beginning of year	\$ 8,867,338	\$ 1,816,496
Additions	8,020,181	7,298,121
Lease and interest payments, accretion, and accrued interest, net	691,019	247,279
Balance, end of year	16,196,500	8,867,338
Lease liability - current portion	963,050	452,597
Lease liability - noncurrent portion	\$ 15,233,450	\$ 8,414,741

The Company has lease liabilities for leases related to real estate used for dispensaries. The weighted average discount rate for the year ended December 31, 2020 was 8%. Interest expense charged to operations for right-of-use lease liabilities totaled \$990,787 and \$288,021 for the years ended December 31, 2020 and 2019, respectively.

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

NOTE L - LEASES (CONTINUED)

Minimum future non-cancelable lease commitments are as follows:

2021	\$ 2,224,879
2022	2,321,635
2023	2,399,379
2024	2,475,549
2025	2,527,179
Thereafter	11,725,546
Total undiscounted lease liabilities	23,674,167
Interest on lease liabilities	(7,477,667)

Total present value of minimum lease payments	16,196,500
Lease liability - current portion	963,050
Lease liability - noncurrent	<u>\$ 15,233,450</u>

NOTE M - RISKS AND UNCERTAINTIES

Marijuana Remains Illegal under Federal Law:

The Company engages in the medical marijuana business. Marijuana is currently illegal under U.S. federal law. It is a Schedule I controlled substance. Accordingly, in those jurisdictions in which the use of medical marijuana has been legalized at the U.S. state level, its prescription is a violation of federal law. The U.S. Supreme Court has ruled that the U.S. federal government has the right to regulate and criminalize marijuana, even for medical purposes. Therefore, U.S. federal law criminalizing the use of marijuana supersedes U.S. state laws that legalize its use for medicinal purposes. The Obama administration made a policy decision to allow U.S. states to implement these laws and not prosecute anyone operating in accordance with applicable U.S. state law. A change in the U.S. federal position towards enforcement could cripple the industry, rendering the Company unable to operate. Moreover, a change in the U.S. federal position towards enforcement could result in U.S. federal law enforcement seizing the assets of the Company, which would result in a complete loss for the Company. Additionally, the U.S. federal government could extend enforcement of the antidrug laws against people who are assisting the medical marijuana industry, including investors and finance sources.

Banking Difficulties:

As discussed above, the cultivation, sale, and use of marijuana is illegal under U.S. federal law. Therefore, there is a compelling argument that banks cannot accept deposit funds from the medical marijuana business and therefore would not be able to do business with the Company. As such, the Company may have trouble finding a bank willing to accept its business. There can be no assurance that banks in U.S. states currently or in the future will decide to do business with medical marijuana growers or retailers, or that in the absence of U.S. legislation, U.S. state and federal banking regulators will not strictly enforce current prohibitions on banks handling funds generated from an activity that is illegal under U.S. federal law. This may make it difficult for the Company to open accounts, use the service of banks, and otherwise transact business, which in turn may negatively affect the Company.

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020 and 2019

NOTE M - RISKS AND UNCERTAINTIES (CONTINUED)

COVID-19 Pandemic:

On January 30, 2020 the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to

curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity.

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

COMBINING BALANCE SHEET

December 31, 2020

	<u>POR</u>	<u>RVC</u>	<u>GPS</u>	<u>Total Uncombined</u>	<u>Eliminations</u>	<u>Combined</u>
<u>ASSETS</u>						
CURRENT ASSETS						
Cash and cash equivalents	\$13,571,860	\$ 3,015	\$ 2,580	\$ 13,577,455	\$ 0	\$ 13,577,455
Accounts receivable	80,145	0	0	80,145	0	80,145
Inventory	13,639,351	0	0	13,639,351	0	13,639,351
Other current assets	1,285,983	0	0	1,285,983	0	1,285,983
TOTAL CURRENT ASSETS	28,577,339	3,015	2,580	28,582,934	0	28,582,934
PROPERTY AND EQUIPMENT, NET	55,333,851	19,084,923	0	74,418,774	0	74,418,774
<u>OTHER ASSETS</u>						
Deposits	852,341	39,273	0	891,614	0	891,614
Due from related parties	10,797,556	0	0	10,797,556	(10,797,556)	0
TOTAL OTHER ASSETS	11,649,897	39,273	0	11,689,170	(10,797,556)	891,614
	<u>\$95,561,087</u>	<u>\$19,127,211</u>	<u>\$ 2,580</u>	<u>\$114,690,878</u>	<u>\$(10,797,556)</u>	<u>\$103,893,322</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>						
CURRENT LIABILITIES						
Accounts payable and accrued expenses	\$ 5,982,661	\$ 0	\$ 10,000,000	\$ 15,982,661	\$ 0	\$ 15,982,661
Current portion of lease liabilities	963,050	0	0	963,050	0	963,050
Current portion of long-term debt	209,889	0	0	209,889	0	209,889
TOTAL CURRENT LIABILITIES	7,155,600	0	10,000,000	17,155,600	0	17,155,600
LONG-TERM LIABILITIES						
Due to related parties	0	0	4,763,929	4,763,929	(4,763,929)	0
Lease liabilities	15,233,450	0	0	15,233,450	0	15,233,450
Notes payable - related parties	3,670,000	0	0	3,670,000	0	3,670,000
Long-term debt	732,414	13,322,059	0	14,054,473	(13,322,059)	732,414
TOTAL LIABILITIES	26,791,464	13,322,059	14,763,929	54,877,452	(18,085,988)	36,791,464
MEMBERS' EQUITY	68,769,623	5,805,152	(14,761,349)	59,813,426	7,288,432	67,101,858
	<u>\$95,561,087</u>	<u>\$19,127,211</u>	<u>\$ 2,580</u>	<u>\$114,690,878</u>	<u>\$(10,797,556)</u>	<u>\$103,893,322</u>

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

COMBINING STATEMENT OF OPERATIONS

Year ended December 31, 2020

	<u>POR</u>	<u>RVC</u>	<u>GPS</u>	<u>Total Uncombined</u>	<u>Eliminations</u>	<u>Combined</u>
<u>OPERATING INCOME</u>						
Sales	\$105,660,570	\$ 0	\$ 0	\$105,660,570	\$ 0	\$105,660,570
Cost of sales	25,886,039	0	0	25,886,039	(2,525,686)	23,360,353

GROSS PROFIT	79,774,531	0	0	79,774,531	2,525,686	82,300,217
OPERATING EXPENSES						
Advertising	981,872	0	0	981,872	0	981,872
Amortization	0	0	0	0	0	0
Contract labor and consulting	423,799	210,000	0	633,799	0	633,799
Depreciation	2,112,705	2,362,922	0	4,475,627	0	4,475,627
Insurance	2,173,843	0	0	2,173,843	0	2,173,843
Payroll - officers	340,000	0	0	340,000	0	340,000
Payroll - other	20,587,619	0	0	20,587,619	0	20,587,619
Other operating expenses	15,861,878	128,769	763	15,991,410	(4,200,000)	11,791,410
Less direct costs allocated to inventory and cost of sales	(21,772,018)	0	0	(21,772,018)	2,034,215	(19,737,803)
TOTAL OPERATING EXPENSES	20,709,698	2,701,691	763	23,412,152	(2,165,785)	21,246,367
INCOME (LOSS) FROM OPERATIONS	59,064,833	(2,701,691)	(763)	56,362,379	4,691,471	61,053,850
OTHER INCOME (EXPENSES)						
Rental income	0	4,200,000	0	4,200,000	(4,200,000)	0
ATM commissions	109,017	0	0	109,017	0	109,017
Interest expense	(1,402,038)	(21,000)	0	(1,423,038)	0	(1,423,038)
Other expense	59,339	0	0	59,339	0	59,339
	(1,233,682)	4,179,000	0	2,945,318	(4,200,000)	(1,254,682)
NET INCOME (LOSS)	\$ 57,831,151	\$ 1,477,309	\$(763)	\$ 59,307,697	\$ 491,471	\$ 59,799,168

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

COMBINING BALANCE SHEET

December 31, 2019

	POR	RVC	GPS	Total Uncombined	Eliminations	Combined
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 4,621,570	\$ 178,826	\$ 185,343	\$ 4,985,739	\$ 0	\$ 4,985,739
Accounts receivable	452,828	1,920,000	0	2,372,828	(1,920,000)	452,828
Inventory	5,744,300	0	0	5,744,300	(491,471)	5,252,829
Other current assets	744,969	0	0	744,969	0	744,969
TOTAL CURRENT ASSETS	11,563,667	2,098,826	185,343	13,847,836	(2,411,471)	11,436,365
PROPERTY AND EQUIPMENT, NET						
	28,025,090	10,686,278	0	38,711,368	0	38,711,368
OTHER ASSETS						
Deposits	491,610	39,273	0	530,883	0	530,883
Due from related parties	7,764,555	4,292,524	11,054,071	23,111,150	(23,111,150)	0
TOTAL OTHER ASSETS	8,256,165	4,331,797	11,054,071	23,642,033	(23,111,150)	530,883

	<u>\$47,844,922</u>	<u>\$17,116,901</u>	<u>\$11,239,414</u>	<u>\$ 76,201,237</u>	<u>\$(25,522,621)</u>	<u>\$50,678,616</u>
LIABILITIES AND MEMBERS' EQUITY						
CURRENT LIABILITIES						
Accounts payable and accrued expenses	\$ 7,065,092	\$ 0	\$ 0	\$ 7,065,092	\$ (1,440,000)	\$ 5,625,092
Current portion of lease liabilities	452,597	0	0	452,597	0	452,597
Current portion of long-term debt	75,931	0	0	75,931	0	75,931
TOTAL CURRENT LIABILITIES	7,593,620	0	0	7,593,620	(1,440,000)	6,153,620
LONG-TERM LIABILITIES						
Lease liabilities	8,414,741	0	0	8,414,741	0	8,414,741
Notes payable - related parties	480,000	2,500,000	0	2,980,000	(480,000)	2,500,000
Long-term debt	4,600,089	10,289,058	0	14,889,147	(14,581,582)	307,565
TOTAL LIABILITIES	21,088,450	12,789,058	0	33,877,508	(16,501,582)	17,375,926
MEMBERS' EQUITY	26,756,472	4,327,843	11,239,414	42,323,729	(9,021,039)	33,302,690
	<u>\$47,844,922</u>	<u>\$17,116,901</u>	<u>\$11,239,414</u>	<u>\$ 76,201,237</u>	<u>\$(25,522,621)</u>	<u>\$50,678,616</u>

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PLANTS OF RUSKIN GPS, LLC DBA ALTMED FLORIDA AND AFFILIATE

COMBINING STATEMENT OF OPERATIONS

Year ended December 31, 2019

	<u>POR</u>	<u>RVC</u>	<u>GPS</u>	<u>Total Uncombined</u>	<u>Eliminations</u>	<u>Combined</u>
OPERATING INCOME						
Sales	\$ 39,371,011	\$ 0	\$ 0	\$ 39,371,011	\$ 0	\$39,371,011
Cost of sales	13,771,446	0	0	13,771,446	(1,789,295)	11,982,151
GROSS PROFIT	25,599,565	0	0	25,599,565	1,789,295	27,388,860
OPERATING EXPENSES						
Advertising	607,327	0	0	607,327	0	607,327
Amortization	343,393	0	0	343,393	0	343,393
Contract labor and consulting	246,152	210,000	0	456,152	0	456,152
Depreciation	1,372,337	1,184,928	0	2,557,265	0	2,557,265
Insurance	922,990	35,241	0	958,231	0	958,231
Payroll	8,058,097	0	0	8,058,097	0	8,058,097
Other operating expenses	7,813,729	127,507	6,000	7,947,236	(2,040,000)	5,907,236
Less direct costs allocated to inventory and cost of sales	(11,828,609)	0	0	(11,828,609)	2,040,000	(9,788,609)

TOTAL OPERATING EXPENSES	<u>7,535,416</u>	<u>1,557,676</u>	<u>6,000</u>	<u>9,099,092</u>	<u>0</u>	<u>9,099,092</u>
INCOME (LOSS) FROM OPERATIONS	<u>18,064,149</u>	<u>(1,557,676)</u>	<u>(6,000)</u>	<u>16,500,473</u>	<u>1,789,295</u>	<u>18,289,768</u>
OTHER INCOME (EXPENSES)						
Rental income	0	2,040,000	0	2,040,000	(2,040,000)	0
ATM commissions	35,869	0	0	35,869	0	35,869
Interest expense	(308,564)	(25,500)	0	(334,064)	0	(334,064)
Other expense	(9,338)	2,160	0	(7,178)	0	(7,178)
	<u>(282,033)</u>	<u>2,016,660</u>	<u>0</u>	<u>1,734,627</u>	<u>(2,040,000)</u>	<u>(305,373)</u>
NET INCOME (LOSS)	<u>\$ 17,782,116</u>	<u>\$ 458,984</u>	<u>\$(6,000)</u>	<u>\$ 18,235,100</u>	<u>\$ (250,705)</u>	<u>\$17,984,395</u>

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020

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March 31, 2021

To the Board of Directors and Members
Alternative Medical Enterprises, LLC and
Affiliates
Phoenix, Arizona

Independent Auditor's Report

Report on the Audit of the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Alternative Medical Enterprises, LLC and Affiliates (collectively 'the Company'), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statement of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United States of America, together with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with those requirements, respectively.

Responsibilities of Management and Those Charge With Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for evaluating whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued, and for disclosing, as applicable, matters related to this evaluation unless the liquidation basis of accounting is being used by the entity.

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

We design audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation, structure, and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We will also obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

As part of an audit, we exercise professional judgment and maintain professional skepticism throughout the audit. We also conclude on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether substantial doubt exists related to the Company's ability to continue as a going concern. If we conclude that substantial doubt exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alternative Medical Enterprises, LLC and Affiliates as of December 31, 2020, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Cannabis Laws

As discussed in Note P to the consolidated financial statements, the Company operates in the cannabis industry which is legal in the State of Arizona but illegal under United States federal law. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2020 consolidating information on pages 24 and 25 is presented for the purpose of additional analysis and of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

/s/ Hill, Barth & King LLC

ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

CONSOLIDATED BALANCE SHEET

Year ended December 31, 2020

<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and cash equivalents	\$ 957,389
Accounts receivable, net	285,062
Notes receivable	263,896
Inventories	3,549,557
Other current assets	221,109
TOTAL CURRENT ASSETS	<u>5,277,013</u>
<u>PROPERTY AND EQUIPMENT, NET</u>	12,480,460
<u>OTHER ASSETS</u>	
Intangible assets, net	4,564,588
Investments in related companies, net	41,862,377
Security deposits	41,353
TOTAL OTHER ASSETS	<u>46,468,318</u>
	<u>\$ 64,225,791</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>	
<u>CURRENT LIABILITIES</u>	
Accounts payable	\$ 458,001
Accrued expenses and other liabilities	822,502
Current portion of lease liabilities	133,458
Current portion of long-term debt	1,468,063
Income tax payable	210,000
TOTAL CURRENT LIABILITIES	<u>3,092,024</u>
<u>LONG-TERM LIABILITIES</u>	
Lease liabilities, net of current portion	54,536
Long-term debt, net of current portion	1,083,741
TOTAL LIABILITIES	<u>4,230,301</u>
<u>MEMBERS' EQUITY</u>	59,995,490
	<u>\$ 64,225,791</u>

See accompanying notes to consolidated financial statements

ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended December 31, 2020

<u>OPERATING INCOME</u>	
Sales	\$ 20,648,304
Cost of sales	<u>9,803,515</u>
GROSS PROFIT	<u>10,844,789</u>
<u>OPERATING EXPENSES</u>	
General and administrative expenses	4,543,847
Amortization	627,897
Depreciation	751,150
TOTAL OPERATING EXPENSES	<u>5,922,894</u>
INCOME FROM OPERATIONS	<u>4,921,895</u>
<u>OTHER INCOME (EXPENSES)</u>	
Income from investments in related companies	24,517,659
Income from sale of investment	885,678
Interest expense	(175,445)
Loss on sale of property and equipment	(415,575)
Other income	3,674
	<u>24,815,991</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	<u>29,737,886</u>
PROVISION FOR INCOME TAXES	<u>210,000</u>
NET INCOME	<u>\$ 29,527,886</u>

See accompanying notes to consolidated financial statements

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

Year ended December 31, 2020

Balance at December 31, 2019	\$ 37,959,108
Contribution from members	1,000,000
Distributions to members	(8,491,504)
Net income	29,527,886
Balance at December 31, 2020	<u>\$ 59,995,490</u>

See accompanying notes to consolidated financial statements

ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2020

<u>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Net income	\$ 29,527,886
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	751,150
Amortization	627,897
Income from investment in related companies	(24,517,659)
Loss on sale of property and equipment	415,575
Changes in assets and liabilities:	
Decrease in accounts and notes receivable	932,802
Increase in inventories	(1,164,131)
Decrease in prepaid expenses	81,128
Increase in security deposits	(1,199)
Decrease in accounts payable	(122,193)
Increase in accrued expenses and other liabilities	446,791
Increase in income taxes payable	210,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,188,047</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Distributions received from investments in related companies	6,559,997
Purchase of property and equipment	(5,180,287)
Proceeds from sale of property and equipment	125,323
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,505,033</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>	
Payments on lease liabilities	(601,401)
Payments on long-term debt	(1,578,196)
Contributions from members	1,000,000
Distributions to members	(8,491,504)
NET CASH USED IN FINANCING ACTIVITIES	<u>(9,671,101)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(978,021)
<u>CASH AND CASH EQUIVALENTS</u>	
Beginning of year	1,935,410
End of year	<u>\$ 957,389</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</u>	
Cash paid during the year for:	
Interest	<u>\$ 175,445</u>
Acquisitions of property and equipment through debt	<u>\$ 3,130,000</u>

See accompanying notes to consolidated financial statements

ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020

NOTE A - NATURE OF OPERATIONS

Organization and Nature of Business:

Alternative Medical Enterprises, LLC and Affiliates (collectively, the Company) consists of the following entities:

Alternative Medical Enterprises, LLC (“AME”) (aka WP&RS Enterprises, LLC), was organized in 2014 as a limited liability company under the laws of the State of Florida. Alternative Medical Enterprises, LLC, through its subsidiaries, grows, cultivates, extracts, manufactures, and sells medical and recreational cannabis products. (MMJ).

Alternative Medical Enterprises, LLC owns 100% of the following companies:

AltMed, LLC, a Florida limited liability company, was formed in 2014, and it owns 41% of a license in Florida to grow, cultivate, extract, manufacture, and sell medical cannabis products. NuTrae, LLC, a Florida limited liability company, was formed in 2014, and develops products for cannabis delivery systems and licenses intellectual property to other parties. Agronomy Holdings, LLC (aka AltMed North America, LLC), a Florida limited liability company, was formed in 2015, and is a holding company for ventures entered outside the state of Florida. MuV Health, LLC, an Arizona limited liability company, was organized in 2019 to produce and sell CBD only products. Cave Creek RE, LLC was formed in 2020 in the state of Arizona as a real estate holding company.

Agronomy Holdings, LLC owns 100% of Agronomy Innovations, LLC, an Arizona limited liability company, was acquired during 2015, and is a cannabis cultivation facility located in Arizona.

Fort Consulting, LLC (the Dispensary) operates as a Medical Marijuana Dispensary and under the rules and regulations of the Arizona Department of Health Services - Medical Marijuana Program. The Dispensary is an Arizona nonprofit organization, incorporated under the laws of the state of Arizona in July 2016. The Dispensary’s primary mission is to run a patient-centric wellness which processes the highest-grade medical marijuana in Arizona. The Dispensary has a goal of infusing horticultural innovations and sympathetic treatments into the Arizona medical marijuana industry and is committed to combining mental and physical health in a format previously inaccessible to terminally ill and other patients. The Dispensary has a one-year license with the Arizona Department of Health Services to operate a Medical Marijuana Dispensary in the state of Arizona. The contract is renewed annually.

Alternative Medical Enterprises, LLC, AltMed, LLC, NuTrae, LLC, Agronomy Holdings, LLC, Agronomy Innovations, LLC, Fort Consulting, LLC, Cave Creek RE, LLC and MuV Health, LLC will be referred to herein as “the Company”.

ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance:

The significant policies that have been applied in the preparation of these consolidated financial statements are summarized below. These accounting policies have been used throughout all periods presented in the consolidated financial statements.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company which are affiliated by virtue of common ownership and control. All significant intercompany transactions and balances have been eliminated in the consolidation.

Basis of Presentation:

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as issued by the Financial Accounting Standards Board (“FASB”).

Basis of Measurement:

The consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial instruments, which are measured at fair value.

Functional Currency:

The functional currency of the Company, as determined by management, is the United States (“U.S.”) dollar. These consolidated financial statements are presented in U.S. dollars.

Revenue Recognition:

Revenue is recognized by the Company in accordance with ASC 606, Revenue from Contracts with Customers. Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under ASC 606, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract;
- Recognize revenue when or as the Company satisfies the performance obligation(s).

December 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued):

Under ASC 606, revenues from the sale of cannabis are generally recognized at the point in time when control over the goods have been transferred to the customer. Payment is typically due upon transferring goods to the customer or within a specified time period permitted under the Company's credit policy.

Revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer.

Use of Estimates:

The preparation of consolidated financial statements in accordance with U.S generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Credit Risk:

The Company maintains cash balances at financial institutions in excess of federally insured limits from time to time. The Company has experienced no losses due to this concentration.

Accounts Receivable:

The Company's revenue consists primarily of retail sales to medical cannabis patients throughout the state of Arizona and to other medical cannabis licensees. The potential risk is limited to the amounts recorded in the consolidated financial statements. The Company provides for potentially uncollectable accounts receivable by use of the allowance method. The allowance is provided based upon a review of the individual accounts outstanding, prior history of uncollectable accounts receivable and existing economic conditions. Normal accounts receivable are due 15 days after the issuance of the invoice. Receivables past due more than 60 days are considered delinquent. The allowance for doubtful accounts was \$9,625 as of December 31, 2020. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventories:

Inventory of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost or net realizable value. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at lower of cost or net realizable value. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventories are written down to net realizable value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Notes Receivable:

The Company sold interests to related parties in exchange for notes receivable in the amount of the interest sold. The expectation was that these notes would be paid within three years. Any distributions the related parties receive as their share of income will first go towards the payment of the note receivable, and only after that note has been paid will they receive future distributions. The balance of notes receivable as of December 31, 2020 is \$163,895.

The Company's share in one of its related parties was repurchased for \$1,800,000 in exchange for cash and a promissory note with a maturity date of December 31, 2021 and a face amount of \$1,400,000. There was no outstanding balance as of December 31, 2020.

Prepaid Expenses:

The Company pays for certain expenses in advance of receipt of goods or services. The amount is expensed over the term of contract or period for which the expenses are paid, using the straight-line method.

Advertising:

The Company expenses advertising as incurred. Advertising expenses were \$232,785 for the year ended December 31, 2020.

Leased Assets:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assess whether:

- The contract involves the use of an identified asset;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets are determined on the same basis as those of property and

equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased Assets (Continued):

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognizes the lease payments associated with the leases as an expense on a straight-line basis over the lease term.

Property and Equipment:

Property and equipment are recorded at cost, net of depreciation. Expenditures for repairs and maintenance are charged to expense as incurred. Leasehold improvements are depreciated over the lesser of the useful life or the lease term. Depreciation is computed using the straight-line method over the assets' estimated useful life. Asset classes and their respective useful lives are as follows:

	<u>YEARS</u>
Buildings	39
Leasehold improvements	5-39

Machinery and equipment	5-15
Furniture and fixtures	5-7
Lab equipment	3-5
Computer equipment	5
Vehicles	5

ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued):

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if appropriate. An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in operations in the year the asset is derecognized.

Income Taxes:

As limited liability companies, the Company's taxable income or loss is allocated to members in accordance with their respective percentage of ownership. Therefore, no provision for income taxes has been included in the consolidated financial statements.

Deferred Income Taxes - Fort Consulting, LLC - Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consists of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (use of different depreciation methods and lives for financial statement and tax purposes). The deferred tax liability represents future tax return consequences for those differences, which will be deductible when the assets and liabilities are recovered or settled.

With limited exceptions, the Company is no longer subject to income tax examination for returns filed more than three years ago. The Company believes the only years open for potential IRS audits are the year ending December 31, 2018, 2019 and 2020. Management has performed an evaluation of income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties, or interest receivable or payable relating to uncertain tax positions in the accompanying consolidated financial statements.

Fair Value Measurements:

ASC 820, "Fair Value Measurement", establishes the minimum disclosure requirements for fair value measurements (and those based on fair value) that are recognized in the consolidated balance sheet after initial recognition. The requirements vary depending on whether the fair value measurements are recurring or non-recurring and their categorization within the fair value hierarchy (i.e. Level 1, 2, or 3).

In order to determine the appropriate categorization of a fair value measurement (as a whole) within the hierarchy, the Company determines the categorization of the inputs used to measure fair value and categorization of the fair value

measurement (as a whole). ASC 820's fair value hierarchy categorizes inputs to valuation techniques into the following levels, based on their observability:

Level 1 - Quoted prices (that are unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability.

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued):

A fair value measurement (as a whole) is categorized within the fair value hierarchy, based on the lowest level of input that is significant to the entire measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

The Company has a number of financial instruments, none of which are held for trading purposes and are measured using Level 3 measurements. The Company estimates that the fair value of all financial instruments at December 31, 2020 does not materially differ from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated balance sheets. The Company, using available market information and appropriate valuation methodologies, has determined the estimated fair value amounts. Considerable judgment is necessary in interpreting market data to develop estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Recent Accounting Pronouncements:

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also added Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer. Collectively, the Company refers to the new Topic 606 and Subtopic 340-40 as the "new guidance."

The Company adopted the requirements of the new guidance as of January 1, 2019, utilizing the modified retrospective method of transition. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASC 842"), which will replace ASC 840, "Leases". This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee

is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. For private companies, the standard will be effective for annual periods beginning on or after December 15, 2021, with earlier application permitted. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements.

The Company adopted the requirements of the new guidance as of January 1, 2020, utilizing the modified retrospective method of transition.

Subsequent Events:

Management evaluated all activity of the Company through March 31, 2021, the date the consolidated financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements or notes, except as described below.

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events (Continued):

Subsequent to the year end, the Company has continued construction on the expansion of its cultivation and manufacturing facilities. Total capital expenditures for the expansion of such facilities through year end 2021 is expected to be approximately \$1,161,182.

In November of 2020, Arizona residents pass proposition 207, the Smart and Safe Act of Arizona, effectively legalizing the recreational adult use of marijuana for people 21 years of age or older. An “adult use” license is required for medical dispensaries to sell cannabis products to “adult use” customers. In addition, a 16% excise tax is placed on recreational use products. As of Q1 of 2021, over 80 dispensaries, including the MuV dispensary, have received the additional license. Recreational use sales in Arizona began in January of 2021.

On November 11, 2020, the Company entered into an agreement with Verano Holdings to sell 100% its membership units including 4,099,098 Class A shares in the Company’s investment in Plants of Ruskin GPS, LLC and RVC 360, LLC, for total consideration net of fees totaling \$35,000,000. This transaction was finalized subsequent to the year end.

NOTE C - CONCENTRATIONS

Financial instruments which potentially subject the Company to concentration of credit risks include cash and cash equivalents in financial institutions, which under U.S. federal law, money obtained from activities related to the marijuana industry cannot be federally insured. At December 31, 2020, the Company had balances of \$957,389 in uninsured cash and cash equivalents in financial instruments.

The Company had two major suppliers with significant outstanding accounts payable balances of approximately 10% at December 31, 2020.

NOTE D - INVENTORY

Inventory at December 31, 2020 is summarized as follows:

	<u>2020</u>
Raw materials	\$ 276,813
Work-in-process	1,689,701
Finished goods	1,583,043
TOTALS	<u>\$ 3,549,557</u>

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE E - OTHER CURRENT ASSETS

Other current assets at December 31, 2020 are summarized as follows:

	<u>2020</u>
Prepaid expenses	\$ 221,049
Other current assets	60
TOTALS	<u>\$ 221,109</u>

NOTE F - INCOME TAX STATUS- FORT CONSULTING, LLC

Fort Consulting, LLC is a non-profit entity for Arizona income tax purposes and elected to be taxed as a C-corporation for Federal tax purposes. Therefore, income taxes are provided for the tax effects of transactions in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of certain assets and liabilities for financial and tax reporting. The Company recorded \$210,000 in current income tax expense for the year ended December 31, 2020.

Deferred taxes are provided on the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740, Income Taxes ("ASC 740"). ASC 740 provides a comprehensive model for the recognition, measurement and disclosure in the consolidated financial statements of uncertain tax positions that the Company has taken or expects to take on a tax return. Under this standard, the Company can recognize the benefit of an income tax position only if it is probable that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position.

Otherwise, no benefit can be recognized. The tax benefits recognized are measured based on either the most likely amount approach or the expected value method.

The Company has not recorded a deferred tax asset for the period from inception to December 31, 2020 due to the uncertainty of any benefit of the loss being realized. Under ASC 740 any deferred tax asset or liability is recorded under the net approach.

ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2020 are summarized as follows:

	<u>2020</u>
Buildings and improvements	\$ 8,203,253
Furniture and equipment	2,242,582
Vehicles	218,827
Construction in progress	2,292,432
Land and improvements	<u>1,020,000</u>
	14,774,043
Accumulated depreciation	<u>(2,293,583)</u>
Net property and equipment	<u>\$ 12,480,460</u>

Depreciation expense for the years ended December 31, 2020 totaled \$751,150. The value of property and equipment held under capital leases for the year ended December 31, 2020 totaled \$1,015,776.

NOTE H - INVESTMENTS

Investment in Related Company:

In 2016, the Company invested \$1,201,000 in a minority interest (10%) of a farm in Colorado. The investment is recorded using the equity method. The Company does not have significant influence or control. In 2019, the Company sold the investment and received the final payment in 2020.

The Company has invested \$16,206,150 for a minority interest (41%) in a Company in Florida. The investment has been recorded at equity method as the Company has significant influence or control.

Below is a reconciliation of this investment:

	<u>2020</u>
Balance, beginning of year	\$ 23,904,715
Distributions during the year	(6,559,997)
Share in current year net income	<u>24,517,659</u>
Balance, end of year	<u>\$ 41,862,377</u>

December 31, 2020

NOTE H - INVESTMENTS (CONTINUED)

Below is a summary of the balance sheet and income statement of the entity that the Company has invested in:

	2020
Total Assets	\$ 103,893,322
Total Liabilities	\$ 53,947,064
Total Equity	49,946,258
	<u>\$ 103,893,322</u>
Total Income	\$ 105,769,587
Total Expenses	45,970,419
Net Income	<u>\$ 59,799,168</u>

NOTE I - INTANGIBLES

Goodwill, Net of Impairment:

Goodwill is from the 2015 purchase of Agronomy Innovations, LLC. The purchase of Agronomy Innovations, LLC for \$775,000 was to establish a foothold in Arizona by obtaining a grow facility that was already established and provide the Company the opportunity to do business in Arizona. The entire purchase price went towards goodwill as there were almost no assets purchased. The Company assesses goodwill for impairment on an annual basis in accordance with ASC 350 *Intangibles – Goodwill and Other* and has fully impaired the asset as of December 31, 2020. The recorded value of the asset was \$0 as of December 31, 2020.

Right-to-Use Agreement:

The Company contracted with a nursery in Florida for the use of their farm land. In exchange for \$310,000 worth of Class A Units, the Company obtained the right to grow Medical Marijuana on their land for a 7-year period. Management has elected to amortize this intangible asset over 7 years, which is the term of the lease. Accumulated amortization expense for the year ended December 31, 2020 was \$310,000. Net book value of the asset was \$0 as of December 31, 2020.

Cultivation and Management Agreement:

During 2017, the Company entered into a cultivation and management agreement for a marijuana grow and dispensary operation in Arizona with a related party and requires the Company to provide cultivation and management services to a related party (under common control). The Company receives a fee for these services on a monthly basis. The Company has experience and expertise in managing the medical marijuana program and its associated retail operation. The Company oversees the day to day operations of the dispensary and cultivation site and provides services related to the purchase and sales of the product. The Company is also involved in ensuring compliance with all Federal, State and local laws applicable to the Company. The total fee for cultivation services for the year ended December 31, 2020 was \$12,882,867. The total management fees related to this management agreement for the year ended December 31, 2020 was \$2,350,234.

December 31, 2020

NOTE J - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, 2020 are summarized as follows:

	2020
Accounts payable	\$ 458,001
Related party payable	24,673
Sales tax payable	100,395
Accrued expenses	697,434
TOTALS	<u>\$ 1,280,503</u>

NOTE K - LONG-TERM DEBT

Long-term debt at December 31, 2020 is as follows:

	2020
Mortgage to Pioneer Title Agency, monthly payments totaling \$31,661 including interest rate of 6%, maturing through March 2023.	\$ 770,554
Note payable to Fidelity National Title, monthly payments totaling \$112,318 including interest rate of 10%, maturing through July 2022.	1,781,250
	<u>2,551,804</u>
Less current portion	1,468,063
TOTAL LONG TERM-DEBT	<u>\$ 1,083,741</u>

Maturities related to this debt are as follows:

2021	\$ 1,468,063
2022	1,018,659
2023	65,082
TOTAL	<u>\$ 2,551,804</u>

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE L - MEMBERS' EQUITY

The Company has sold ownership interests to related and non-related parties (Subscriber), in the form of Class A Units ("Units"). These Units are restricted securities under applicable U.S. Federal and state securities laws, and the Units cannot be offered for sale, sold, delivered after sale, pledged, hypothecated, transferred, or otherwise disposed of by Subscriber, and must be held indefinitely unless Subscriber's offer and sale of the Units are subsequently registered under the Securities Act, and any applicable state securities laws, or an exemption from such registration is available. Subscriber understands and agrees that the Company has no obligation or intent (i) to register any of the Units under the Securities Act or any applicable state securities laws; (ii) to take any action so as to permit sales pursuant to Rule

144 under the Securities Act; and (iii) the Company has not covenanted to assure that such Rule 144 is, or will be, available for resale of the Units.

Subscriber understands and agrees that (i) there will be no public market for the Units; (ii) the investment in the Units is not liquid; and (iii) Subscriber must bear the economic risk of the Subscriber's investment in the Units for an indefinite period of time. The total value, net of redemptions, (and total number) of Class A Units outstanding as of December 31, 2020 was \$58,802,887.

NOTE M - LEASES

The Company leased office space in Sarasota, Florida under an initial non-cancelable agreement which was expiring in June 2019, with monthly rent of \$6,400. The agreement was amended effective July 2018 expiring on July 2020 with a monthly payment of \$6,790 from July 2019 to July 2020. The lease was renewed to June 2021 with monthly payments escalating to \$9,761.

The Company leases a dispensary facility in Arizona with a term of five years starting July 2017 with a monthly payment of \$7,000.

The Company recognized right-of-use assets and lease liabilities at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

As of December 31, 2020, the Company's lease liabilities consisted of the following:

The Company has lease liabilities related to real estate used for dispensaries. The weighted average discount rate for the year ended December 31, 2020 was 8%.

The maturity of the contractual undiscounted lease liabilities at December 31, 2020 is as follows:

Interest rates on capitalized leases vary from 6.6% to 10.2% and are imputed based on the lower of the Company's incremental borrowing rate at the time of inception of each lease or the lessor's implicit rate of return.

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE N – LEASES WHERE COMPANY IS LESSEE

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise primarily of:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- Amounts expected to be payable under a residual value or guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonable certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonable certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The maturity of the contractual undiscounted lease liabilities at December 31, 2020 is as follows:

2021	\$ 151,069
2022	56,000
Total undiscounted lease liabilities	<u>207,069</u>
Interest on lease liabilities	(19,073)
Total present value of minimum lease payments	<u>187,996</u>
Lease liabilities - current portion	<u>133,458</u>
Lease liabilities - noncurrent	<u>\$ 54,536</u>

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE N – LEASES WHERE COMPANY IS LESSEE (CONTINUED)

The Company's right-of-use assets consist of real property and office equipment. As of December 31, 2020, the Company's lease schedule consisted of the following:

	<u>2020</u>
Balance, beginning of year	\$ 789,395
Additions (Deletions)	(241,580)
Lease and interest payments, accretion, and accrued interest, net	<u>(359,821)</u>
Balance, end of year	187,994
Lease liability - current portion	<u>133,458</u>
Lease liability - noncurrent portion	<u>\$ 54,536</u>

Interest expense charged to operations for right-of-use lease liabilities for the year ended December 31, 2020 totaled \$35,772.

NOTE O - RELATED PARTY TRANSACTIONS

The LLCs entered into management agreement with a company (the management company) that is owned by a related party that provides management services for all the LLCs. There is no formal written agreement. The terms of the verbal agreement state that the LLCs must pay the management company's service fees and reimburse any out-of-pocket expenses. The total amount of related party management fees for the year ended December 31, 2020 was \$2,350,234.

There was a total of \$360,969 paid to members of the LLCs in the form of guaranteed payments for the year ended December 31, 2020.

NOTE P - CONTINGENCIES

Compliance:

The Company's compliance with certain laws and regulations is subject to review by the various states in which they operate. Although such reviews could result in adverse decisions, it is the opinion of management that any matters could be resolved without significant impact to the operations of the Company.

Litigation

The Company is contingently liable for claims and judgments resulting from lawsuits incidental to the normal operation of a company. In the opinion of the Company's management, the Company's insurance coverage is adequate to cover claims relating to normal operations and any lawsuit that might adversely impact the Company would not have a material effect on the consolidated financial statements. Accordingly, no provision for possible losses is reflected in the consolidated financial statements.

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2020

NOTE P – CONTINGENCIES (CONTINUED)

Marijuana Remains Illegal under Federal Law:

The Company engages in the medical marijuana business. Marijuana is currently illegal under U.S. federal law. It is a Schedule I controlled substance. Accordingly, in those jurisdictions in which the use of medical marijuana has been legalized at the U.S. state level, its prescription is a violation of federal law. The U.S. Supreme Court has ruled that the U.S. federal government has the right to regulate and criminalize marijuana, even for medical purposes. Therefore, U.S. federal law criminalizing the use of marijuana supersedes U.S. state laws that legalize its use for medicinal purposes. The Obama administration made a policy decision to allow U.S. states to implement these laws and not prosecute anyone operating in accordance with applicable U.S. state law. A change in the U.S. federal position towards enforcement could cripple the industry, rendering the Company unable to operate.

Moreover, a change in the U.S. federal position towards enforcement could result in U.S. federal law enforcement seizing the assets of the Company, which would result in a complete loss for the Company. Additionally, the U.S. federal government could extend enforcement of the antidrug laws against people who are assisting the medical marijuana industry, including investors and finance sources.

As discussed above, the cultivation, sale, and use of marijuana is illegal under U.S. federal law. Therefore, there is a compelling argument that banks cannot accept deposit funds from the medical marijuana business and therefore would not be able to do business with the Company. As such, the Company may have trouble finding a bank willing to accept its business.

There can be no assurance that banks in U.S. states currently or in the future will decide to do business with medical marijuana growers or retailers, or that in the absence of U.S. legislation, U.S. state and federal banking regulators will not strictly enforce current prohibitions on banks handling funds generated from an activity that is illegal under U.S. federal law. This may make it difficult for the Company to open accounts, use the service of banks, and otherwise transact business, which in turn may negatively affect the Company.

COVID-19 Pandemic:

On January 30, 2020 the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity.

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SUPPLEMENTARY INFORMATION

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

CONSOLIDATING BALANCE SHEET

December 31, 2020

ASSETS

	Alternative Medical Enterprises, LLC	Agronomy Holdings, LLC	Agronomy Innovations, LLC	AltMed, LLC	Cave Creek RE, LLC	Fort Consulting, LLC	MuV Health, LLC	NuTrac, LLC	Elimination	Total
<u>CURRENT ASSETS</u>										
Cash and cash equivalents	\$ 0	\$ 7,746	\$ 281,449	\$ 0	\$ 9,867	\$ 646,213	\$ 6,310	\$ 5,804	\$ 0	\$ 957,389
Accounts receivable, net	0	0	60,000	0	0	225,143	(21)	(60)	0	285,062
Notes receivable	163,896	100,000	16,745,052	0	(2,684,088)	0	0	(3,370)	(14,057,594)	263,896

Inventories	0	0	276,812	0	0	3,040,265	232,480	0	0	3,549,557
Other current assets	122,384	0	195,353	0	0	0	60	0	(96,688)	221,109
TOTAL CURRENT ASSETS	286,280	107,746	17,558,666	0	(2,674,221)	3,911,621	238,829	2,374	(14,154,282)	5,277,013
PROPERTY AND EQUIPMENT, NET										
	67,708	0	7,302,149	46,067	5,064,536	0	0	0	0	12,480,460
OTHER ASSETS										
Intangible and investments in related companies, net	39,686,508	21,540,258	4,564,588	41,862,377	0	0	0	0	(61,226,766)	46,426,965
Security deposits	0	0	34,753	6,400	0	0	0	200	0	41,353
TOTAL OTHER ASSETS	39,686,508	21,540,258	4,599,341	41,868,777	0	0	0	200	(61,226,766)	46,468,318
	40,040,496	21,648,004	29,460,156	41,914,844	2,390,315	3,911,621	238,829	2,574	(75,381,048)	64,225,791

LIABILITIES AND MEMBERS' EQUITY (DEFICIT)

	Alternative Medical Enterprises, LLC	Agronomy Holdings, LLC	Agronomy Innovations, LLC	AltMed, LLC	Cave Creek RE, LLC	Fort Consulting, LLC	MuV Health LLC	NuTrae, LLC	Elimination	Total
CURRENT LIABILITIES										
Accounts payable	\$ 0	\$ 0	\$ 231,724	\$ 0	\$ 0	\$ 225,197	\$ 1,080	\$ 0	\$ 0	\$ 458,001
Accrued expenses	9,883,741	0	9,829,788	(6,760,886)	0	5,548,835	933,643	(2,758,547)	(15,854,073)	822,501
Current portion of capital lease liabilities	0	0	84,378	49,080	0	0	0	0	0	133,458
Current portion of long-term debt	0	0	0	0	1,468,063	0	0	0	0	1,468,063
Income tax payable	0	0	0	0	0	210,000	0	0	0	210,000
TOTAL CURRENT LIABILITIES	9,883,741	0	10,145,890	(6,711,806)	1,468,063	5,984,032	934,723	(2,758,547)	(15,854,073)	3,092,023
LONG-TERM LIABILITIES										

Lease liabilities, net of current portion	0	0	54,536	0	0	0	0	0	0	54,536
Long-term debt, net of current portion	0	0	0	0	1,083,741	0	0	0	0	1,083,741
TOTAL LONG-TERM LIABILITIES	0	0	54,536	0	1,083,741	0	0	0	0	1,138,277
TOTAL LIABILITIES	9,883,741	0	10,200,426	(6,711,806)	2,551,804	5,984,032	934,723	(2,758,547)	(15,854,073)	4,230,300
MEMBERS' EQUITY (DEFICIT)	30,156,755	21,648,004	19,259,730	48,626,650	(161,489)	(2,072,411)	(695,894)	2,761,121	(59,526,975)	59,995,491
	40,040,496	21,648,004	29,460,156	41,914,844	2,390,315	3,911,621	238,829		(75,381,048)	64,225,791

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

CONSOLIDATING STATEMENT OF OPERATIONS

Year ended December 31, 2020

	Alternative Medical Enterprises, LLC	Agronomy Holdings, LLC	Agronomy Innovations, LLC	AltMed, LLC	Cave Creek RE, LLC	Fort Consulting, LLC	MuV Health LLC	NuTrae, LLC	Elimination	Total
OPERATING INCOME										
Sales	\$ 0	\$ 3,566	\$ 15,552,777	\$ 0	\$ 0	\$ 20,591,054	\$ 41,184	\$ 732,004	\$ (16,272,281)	\$ 20,648,304
Cost of sales	0	0	6,060,393	0	0	17,347,340	17,401	(44)	(13,621,575)	9,803,515
GROSS PROFIT	0	3,566	9,492,384	0	0	3,243,714	23,783	732,048	(2,650,706)	10,844,789
OPERATING EXPENSES										
General and administrative expenses	1,231,457	5,834	2,800,805	(350)	(41,112)	2,662,660	498,174		(2,658,611)	4,543,847
Amortization	0	0	542,252	85,645	0	0	0	0	0	627,897
Depreciation	5,855	0	560,351	125,527	59,417	0	0	0	0	751,150
TOTAL OPERATING EXPENSES	1,237,312	5,834	3,903,408	210,822	18,305	2,662,660	498,174	44,990	(2,658,611)	5,922,894

INCOME (LOSS) FROM OPERATIO NS	(1,237,3 12)	(2,268)	5,588,97 6	(210,822)	(18,30 5)	581,054	(474,3 91)	687,05 8	7,905	4,921,89 5
OTHER INCOME (EXPENSE)										
Income from investments in related companies	0	0	0	24,517,6 59	0	0	0	0	0	24,517,6 59
Income from the sale of investment	0	885,67 8	0	0	0	0	0	0	0	885,678
Interest income (expense)	3,871	15	(26,854)	(9,279)	(143,1 83)	0	(15)	0	0	(175,445)
Gain (loss) on sale of property and equipment	0	0	94,918	(510,493)	0	0	0	0	0	(415,575)
Other income (expense)	(109,425)	0	(127)	0	0	0	0	113,22 6	0	3,674
	(105,554)	885,69 3	67,937	23,997,8 87	(143,1 83)	0	(15)	113,22 6	0	24,815,9 91
INCOME BEFORE PROVISIO N FOR INCOME TAXES	(1,342,8 66)	883,42 5	5,656,91 3	23,787,0 65	(161,4 88)	581,054	(474,4 06)	800,28 4	7,905	29,737,8 86
PROVISION FOR INCOME TAXES	0	0	0	0	0	210,000	0	0	0	210,000
NET INCOME (LOSS)	(1,342,8 66)	883,42 5	5,656,91 3	23,787,0 65	(161,4 88)	\$ 371,054	(474,4 06)	800,28 4	\$ 7,905	29,527,8 86

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2019

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
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DECEMBER 31, 2019**

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South Phoenix
4653 E Cotton Gin Loop, Suite 120
Phoenix, AZ 85040

It’s about time.

INDEPENDENT AUDITOR’S REPORT

To the Board of Directors and Members Alternative Medical Enterprises, LLC and Affiliates

We have audited the accompanying consolidated financial statements of Alternative Medical Enterprises, LLC and Affiliates, which comprise the consolidated balance sheet as of December 31, 2019 and the related consolidated statement of operations, changes in members’ equity, and cash flows for the year then ended, and the related notes to the consolidated financial

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alternative Medical Enterprises, LLC and Affiliates as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Atlas CPAs & Advisors PLLC
ATLAS CPAs & Advisors PLLC
Phoenix, Arizona
July 6, 2020

O: 602.431.9288
F: 602.431.9299



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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2019**

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,935,410
Accounts receivable	403,542
Notes receivable	1,078,217
Inventories	2,385,426
Prepaid expenses	302,237
TOTAL CURRENT ASSETS	6,104,832
LONG-TERM ASSETS	
Property and equipment, net	4,938,004
Intangible assets, net	5,195,408
Investments, net	23,904,715
Security deposits	40,154
TOTAL LONG-TERM ASSETS	34,078,281
TOTAL ASSETS	\$ 40,183,113
LIABILITIES AND MEMBERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 580,194
Accrued expenses and other liabilities	375,711
Notes payable	1,000,000
Current portion of capital leases	22,020
TOTAL CURRENT LIABILITIES	1,977,925

LONG-TERM PORTION OF CAPITAL LEASES	11,896
TOTAL LIABILITIES	<u>1,989,821</u>
MEMBERS' EQUITY	<u>38,193,292</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 40,183,113</u>

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

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Amount	Percent
Net Revenues	\$ 14,482,050	100.0%
Cost of Revenues	<u>8,620,878</u>	<u>59.5</u>
Gross Profit	5,861,172	40.5
General and administrative expense	4,808,041	33.2
Amortization	1,300,447	9.0
Depreciation	445,177	3.1
	<u>6,553,665</u>	<u>45.3</u>
Loss from Operations	<u>(692,493)</u>	<u>(4.8)</u>
Other Income (Expense) Income from investee	8,036,184	55.5
Interest expense	(3,871)	(0.0)
Loss on sale of property and equipment	(25,077)	(0.2)
Interest income	1,218	0.0
Total Other Income	<u>8,008,454</u>	<u>55.3</u>
Net income	<u>\$ 7,315,961</u>	<u>50.5%</u>

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

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019**

Balances at December 31, 2018	\$ 32,127,331
Repurchase of member's interest	(1,250,000)
Net income	<u>7,315,961</u>
Balances at December 31, 2019	<u>\$ 38,193,292</u>

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

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 7,315,961
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	445,177
Amortization expense	1,300,447
Income from investee	(8,036,184)
Loss on sale of property and equipment	25,077
Effects of changes in operating assets and liabilities:	
(Increase) decrease in operating assets	
Accounts receivable	(259,788)
Prepaid expenses	62,574
Inventories	(317,509)
Increase (decrease) in operating liabilities	
Accounts payable	383,619
Accrued expenses and other liabilities	109,610
Deferred revenue	(490,278)
Net cash provided by operating activities	<u>538,706</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Distributions received from investments	287,000
Purchase of property and equipment	(513,031)
Proceeds from sale of property and equipment	17,500
Net cash used in investing activities	<u>(208,531)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment on capital leases	(30,013)
Repurchase of member's interest	(250,000)
Net cash used in financing activities	<u>(280,013)</u>
Net change in cash	50,162
Cash and cash equivalents - beginning of period	1,885,248
Cash and cash equivalents - end of period	<u>\$ 1,935,410</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Issuance of debt to repurchase member's interest	<u>\$ 1,000,000</u>
Interest paid	<u>\$ 3,871</u>

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

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1: BUSINESS ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Organization and Operations

Alternative Medical Enterprises, LLC and Affiliates consists of the following entities:

Alternative Medical Enterprises, LLC (aka WP&RS Enterprises, LLC) was organized in 2014 under the laws of the State of Florida. Alternative Medical Enterprises, LLC, through its subsidiaries, provides alternative medicines in the form of cannabis and cannabis related products (MMJ).

As of December 31, 2019, Alternative Medical Enterprises, LLC owns 100% of the following companies:

AltMed, LLC, a Florida limited liability company, was formed in 2014, and it owns 41% of a license in Florida to grow, process, and dispense MMJ. NuTrae, LLC, a Florida limited liability company, was formed in 2014, and develops products for MMJ delivery systems and licenses intellectual property to other parties. Agronomy Holdings, LLC (aka AltMed North America, LLC), a Florida limited liability company, was formed in 2015, and is a holding company for ventures entered outside the state of Florida. MuV Health, LLC, an Arizona limited liability company, was organized in 2019 to produce and sell CBD only products.

As of December 31, 2019, Agronomy Holdings, LLC owns 100% of Agronomy Innovations, LLC, an Arizona limited liability company, was acquired during 2015, and is an MMJ grow facility located in Arizona.

Fort Consulting, LLC operates as a Medical Marijuana Dispensary and under the rules and regulations of the Arizona Department of Health Services - Medical Marijuana Program. The Dispensary's primary mission is to run a patient-centric wellness which processes the highest-grade medical marijuana in Arizona. The Dispensary has a goal of infusing horticultural innovations and sympathetic treatments into the Arizona Medical marijuana industry and is committed to combining mental and physical health in a format previously inaccessible to terminally ill and other patients. The Dispensary has a one year license with the Arizona Department of Health Services to operate a Medical Marijuana Dispensary in the state of Arizona. The contract is renewed annually. The Dispensary is an Arizona nonprofit Organization, incorporated under the laws of the state of Arizona in July, 2016.

Alternative Medical Enterprises, LLC, AltMed, LLC, NuTrae, LLC, Agronomy Holdings, LLC, Agronomy Innovations, LLC, Fort Consulting, LLC, Vida Pets, LLC and MUV Health, LLC will be referred to herein as "the LLCs".

While part of the Company's operation is considered legal under state and local law, the sale of marijuana for any purpose is still illegal under federal law. Management believes it is unlikely that the federal government will force the closing of the facilities. However, action by the federal government could result in significant losses to the Company as well as potential exposure to criminal charges for the trafficking of a substance deemed illegal under federal law.

**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1: BUSINESS ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Alternative Medical Enterprises, LLC and its affiliates, the LLCs, collectively referred to as "the Company" which are

affiliated by virtue of common ownership and control. All significant intercompany transactions and balances have been eliminated in the consolidation.

Nature of Activities

The Company's operations are dependent on economic and legal conditions which affect the medicinal cannabis and health care industries, and changes in those conditions may affect the Company's continuing operations. While the nature of the Company's business is legalized and approved by the states of Florida and Arizona, it is considered to be an illegal activity under federal law. Accordingly, certain additional risks and uncertainties are prevalent as discussed in the following notes.

Basis of Accounting

The financial statements of the Company have been prepared on the accrual basis of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned, and expenses are recognized in the period in which they are incurred. All revenue and expenses which are applicable to future periods have been presented as deferred or prepaid on the accompanying balance sheet.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue as the products are sold and delivered to individual customers. No ongoing warranties are provided.

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1: BUSINESS ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Credit Risk

The Company maintains cash balances at financial institutions in excess of federally insured limits from time to time. The Company has experienced no losses due to this concentration.

Accounts Receivable

The Company provides for potentially uncollectable accounts receivable by use of the allowance method. The allowance is provided based upon a review of the individual accounts outstanding, prior history of uncollectable accounts receivable and existing economic conditions. Normal accounts receivable are due 15 days after the issuance of the invoice. Receivables past due more than 60 days are considered delinquent. The allowance for doubtful accounts was \$2,894 as of December 31, 2019. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventories

Inventories are valued at the lower of cost (first in, first out basis) or market, and consist primarily of production supplies and materials.

Notes Receivable

The Company sold interests to related parties in exchange for notes receivable in the amount of the interest sold. The expectation was that these notes would be paid within three years. Any distributions the related parties receive as their share of income will first go towards the payment of the note receivable, and only after that note has been paid will they receive future distributions. The balance of notes receivable as of December 31, 2019 is \$163,895.

At December 31, 2019, the Company's share in one of its related parties was repurchased for \$1,800,000 in exchange for cash and a promissory note with a maturity date of December 31, 2020 and a face amount of \$1,400,000. The balance of the note as of December 31, 2019 is \$914,322.

Prepaid Expenses

The Company pays for certain expenses in advance of receipt of goods or services. The amount is expensed over the term of contract or period for which the expenses are paid, using the straight line method.

**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1: BUSINESS ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are recorded at cost and are depreciated on the straight-line method over their estimated useful lives which range from 5 to 10 years. Leasehold improvements are depreciated over the lesser of the useful life or the lease term.

Income Taxes

As limited liability companies, the Company's taxable income or loss is allocated to members in accordance with their respective percentage of ownership. Therefore, no provision for income taxes has been included in the consolidated financial statements.

Deferred Income Taxes - Fort Consulting, LLC - Income taxes are provided for the tax effects of transactions reported in the financial statements and consists of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial

statement and income tax purposes. The differences relate primarily to depreciable assets (use of different depreciation methods and lives for financial statement and tax purposes). The deferred tax liability represents future tax return consequences for those differences, which will be deductible when the assets and liabilities are recovered or settled.

U.S. GAAP requires management to perform an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Company's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for Federal and state purposes.

With limited exceptions, the Company is no longer subject to income tax examination for returns filed more than three year ago. The Company believes the only year open for potential IRS audits are the year ending December 31, 2017, 2018 and 2019. Management has performed an evaluation of income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties, or interest receivable or payable relating to uncertain tax positions in the accompanying consolidated financial statements.

On December 22, 2017, the Tax Cuts and Jobs Act (H.R. 1) (the "Tax Act") was signed into law by President Trump. The Tax Act contains significant changes to corporate taxation, including reduction of the corporate tax rate from 35% to 21%, limitation of the tax deduction for interest expense to 30% of earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. Since the Company elected to be taxed as a C-corporation, the Tax Act had no impact on the financial statements.

**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1: BUSINESS ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

GAAP regarding fair value measurements clarifies the definition of fair value for financial reporting and establishes a three-tier hierarchy as a framework for measuring fair value which requires an entity to give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when measuring fair value. The standard also requires additional disclosure about the use of fair value measurements.

Fair value is defined as the price to sell an asset or transfer a liability between market participants as of the measurement date. The three levels of the fair value hierarchy under this standard are as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Observable market-based inputs or unobservable inputs corroborated by market data
- Level 3 - Unobservable inputs reflecting the reporting entities own assumptions

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

The Company has a number of financial instruments, none of which are held for trading purposes and are measured using Level 3 measurements. The Company estimates that the fair value of all financial instruments at December 31, 2019 does not materially differ from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The Company, using available market information and appropriate valuation methodologies, has determined the estimated fair value amounts. Considerable judgment is necessary in interpreting market data to develop estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Advertising

The Company expenses advertising as incurred. Advertising expenses were \$202,891 for the year ended December 31, 2019.

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1: BUSINESS ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and Development

The Company, from time to time, engages in research and development activities. Those costs are charged to operations as incurred. As of December 31, 2019, the Company had research and development expenses of \$455.

NOTE 2: INVENTORIES

The Company's inventories, primarily made up of cannabis related products, as of December 31, 2019, consist of the following:

Raw materials	\$ 611,666
Work-in-progress	1,021,507
Finished goods	752,253
	<u>\$ 2,385,426</u>

NOTE 3: INCOME TAX STATUS - FORT CONSULTING, LLC

Fort Consulting, LLC is a non-profit entity for Arizona income tax purposes and elected to be taxed as a C-corporation for Federal tax purposes. Therefore, income taxes are provided for the tax effects of transactions in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of certain assets and liabilities for financial and tax reporting.

Deferred taxes are provided on the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences

between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company accounts for uncertain tax positions in accordance with the provisions of FASB ASC Topic 740, Income Taxes (“ASC 740”). ASC 740 provides a comprehensive model for the recognition, measurement and disclosure in the financial statements of uncertain tax positions that the Company has taken or expects to take on a tax return. Under this standard, the Company can recognize the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit can be recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3: INCOME TAX STATUS - FORT CONSULTING, LLC (CONTINUED)

The Company has not recorded a deferred tax asset for the net operating loss incurred for the period from inception to December 31, 2019 due to the uncertainty of the benefit of the loss being realized. Therefore, if recorded the Company would provide for a valuation allowance equal to the potential realized benefit. In the future if the Company receives benefit from this net operating loss the financial statements will reflect this benefit through a reduction of the valuation allowance. As of December 31, 2019, the net operating loss carryover is approximately \$1,070,000.

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2019 are summarized as follows:

Buildings and improvements	\$ 4,268,411
Furniture and equipments	1,482,743
Vehicles	191,064
Construction in progress	180,131
Land and improvements	78,040
	<u>6,200,389</u>
Less: accumulated depreciation	<u>(1,262,385)</u>
Total property, plant and equipment	<u>\$ 4,938,004</u>

Depreciation expense for the year ended December 31, 2019 totaled \$445,177. The value of vehicles and equipment held under capital leases for the year ended December 31, 2019 totaled \$184,640.

NOTE 5: INVESTMENTS AND NOTES RECEIVABLES

The Company has two investments as listed below:

Investment in related company

In 2016, the Company invested \$1,201,000 in a minority interest (10%) of a farm in Colorado. The investment is recorded using the equity method. The Company does not have significant influence or control. Below is a reconciliation of this investment:

Balance, beginning of year	\$ 863,703
Current year income	50,619
Balance, end of year	<u>\$ 914,322</u>

Below is a summary of the balance sheet and income statement of the entity that the Company has invested in:

Total Assets	<u>\$ 6,020,085</u>
Total Liabilities	<u>\$ 1,053,799</u>
Total Equity	<u>4,966,286</u>
	<u>\$ 6,020,085</u>
Total Income	<u>\$ 506,190</u>
Total Expenses	<u>2,313,987</u>
Net Loss	<u>\$ (1,807,797)</u>

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5: INVESTMENTS AND NOTES RECEIVABLES (CONTINUED)

At December 31, 2019, the Company's share in one of its related parties was repurchased for \$1,800,000 in exchange for cash and a promissory note with a maturity date of December 31, 2020 with a face amount of \$1,400,000 (Note 1). As of December 31 2019, the balance of notes receivable is \$914,322 with an allowance for doubtful accounts totaling \$885,678.

The promissory note is payable in three monthly installments of \$32,000 starting March 1, 2020 and the balance payable in full on December 31, 2020. As of the report date, the amount collected is \$364,000.

Investment in related company

The Company has invested \$16,206,150 for a minority interest (41%) in a Company in Florida. The investment has been recorded at equity method as the Company has significant influence or control. Below is a reconciliation of this investment:

Balance, beginning of year	\$ 16,206,150
Distributions during the year	(287,000)
Share in current year net income	7,985,565
Balance, end of year	<u>\$ 23,904,715</u>

Below is a summary of the balance sheet and income statement of the entity that the Company has invested in:

Total Assets	<u>\$ 42,483,242</u>
Total Liabilities	<u>\$ 8,508,588</u>
Total Equity	<u>33,974,654</u>
	<u>\$ 42,483,242</u>
Total Income	<u>\$ 28,113,124</u>
Total Expenses	<u>9,500,453</u>

Net Income \$ 18,612,671

In 2019, the Company recorded the investment using the equity method which resulted in an adjustment related to previous period shares in related company's income of \$354,370. The amount is not significant and was included as part of current year income from investment.

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 6: INTANGIBLES

Goodwill, net of impairment

Goodwill is from the 2015 purchase of Agronomy Innovations, LLC. The purchase of Agronomy Innovations, LLC for \$775,000 was to establish a foothold in Arizona by obtaining a grow facility that was already established and provide the Company the opportunity to do business in Arizona. The entire purchase price went towards goodwill as there were almost no assets purchased. The Company has elected to amortize this asset over 10 years for book purposes. The accumulated amortization at December 31, 2019 was \$342,292.

Right to use agreement

The Company contracted with a nursery in Florida for the use of their farm land. In exchange for \$310,000 worth of Class A Units, the Company obtained the right to grow Medical Marijuana on their land for a 7-year period. Management has elected to amortize this intangible asset over 7 years, which is the term of the lease. Accumulated amortization expense for the year ended December 31, 2019 was \$221,429. Net book value of the asset was \$88,571 as of December 31, 2019.

Cultivation and management agreement

During 2017 the Company entered into a cultivation and management agreement for a marijuana grow and dispensary operation in Arizona with a related party. The Company entered into a cultivation and management agreement and requires the Company to provide cultivation and management services to a related party (under common control). The Company receives a fee for these services on a monthly basis. The Company has experience and expertise in managing the medical marijuana program and its associated retail operation. The Company oversees the day to day operations of the dispensary and cultivation site and provides services related to the purchase and sales of the product. The Company is also involved in ensuring that the Company is compliant with all Federal, State and local laws applicable to the Company. The total fee for cultivation services for the year ended December 31, 2019 was \$13,249,504. The total management fees related to this management agreement for the year ended December 31, 2019 was \$2,037,290.

Royalty agreement

During 2017 the Company negotiated the buyout of a royalty agreement with an outside third party. The Company paid the outside third party a total of \$1,200,000. The Company is amortizing this asset over the term of the original agreement and recognizing expense as the payments would have been made based on the revenue earned. The total expense related to the agreement for the year ended December 31, 2019 was \$1,069,111.

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ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 7: CLASS A UNITS SOLD

The Company has sold ownership interests to related and non-related parties (Subscriber), in the form of Class A Units (“Units”). These Units are restricted securities under applicable U.S. Federal and state securities laws, and the Units cannot be offered for sale, sold, delivered after sale, pledged, hypothecated, transferred, or otherwise disposed of by Subscriber, and must be held indefinitely unless Subscriber’s offer and sale of the Units are subsequently registered under the Securities Act, and any applicable state securities laws, or an exemption from such registration is available. Subscriber understands and agrees that the Company has no obligation or intent (i) to register any of the Units under the Securities Act or any applicable state securities laws; (ii) to take any action so as to permit sales pursuant to Rule 144 under the Securities Act; and (iii) the Company has not covenanted to assure that such Rule 144 is, or will be, available for resale of the Units.

Subscriber understands and agrees that (i) there will be no public market for the Units; (ii) the investment in the Units is not liquid; and (iii) Subscriber must bear the economic risk of the Subscriber’s investment in the Units for an indefinite period of time.

The total value, net of redemptions, (and total number) of Class A Units outstanding as of December 31, 2019 was \$47,703,986.

NOTE 8: NOTE PAYABLE

In 2019, the Company issued a promissory note amounting to \$1,250,000 payable within one year from the date of the note. The promissory note is to be paid in two installments, and such amount shall accrue interest at a rate of 15%. As of December 31, 2019, notes payable is \$1,000,000.

NOTE 9: LEASE COMMITMENTS

Operating Leases

The Company leased office space in Sarasota, Florida under an initial non-cancelable agreement which was expiring in June 2019, with monthly rent of \$6,400. The agreement was amended effective July 2018 expiring on July 2020 with a monthly payment of \$6,592 from July 2018 till July 2019 and \$6,790 from July 2019 till July 2020.

The Company leases office space in Coolidge, Arizona from a related party under a non-cancelable agreement which expires in May 2021, with increasing monthly payments. As of December 31, 2019 the monthly payment was \$24,662. U.S. GAAP for non-level lease payments requires the rent expense to be reported on a straight-line method over the life of the lease. Accordingly, the Company has recorded a deferred rent liability, recognized in accrued expenses and other liabilities on the consolidated balance sheet. The total deferred rent associated with this lease was not material to the financial statements as of December 31, 2019.

NOTE 9: LEASE COMMITMENTS (CONTINUED)

The Company leases a dispensary facility in Arizona with a term of five years starting July 2017 with a monthly payment of \$7,000.

Rent expense under the operating leases for the year ended December 31, 2019 was \$500,527. The total minimum future lease payments are as follows:

Years Ending December 31,	
2020	\$ 285,879
2021	70,360
	<u>356,239</u>
Less: Current portion	(285,879)
Total long-term obligations	<u>\$ 70,360</u>

Capital Leases

During 2016, the Company entered into non-cancelable capital leases for lab equipment and a vehicle expiring in various year through 2021. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payment or the fair value of the assets. The assets are depreciated over the lower of their related lease terms. The cost of these assets are \$184,640 and accumulated depreciation is \$78,587 for the year ended December 31, 2019.

The future minimum lease payments are as follows:

Years Ending December 31,	
2020	\$ 22,020
2021	11,896
	<u>33,916</u>
Less: Current portion	(22,020)
Total Capital Lease Obligations	<u>\$ 11,896</u>

Interest rates on capitalized leases vary from 6.6% to 10.2% and are imputed based on the lower of the Company's incremental borrowing rate at the time of inception of each lease or the lessor's implicit rate of return.

ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 10: RELATED PARTY TRANSACTIONS

The LLCs entered into management agreement with a company (the management company) that is owned by a related party that provides management services for all the LLCs. There is no formal written agreement. The terms of the verbal agreement state that the LLCs must pay the management company's service fees and reimburse any out-of-pocket expenses. The total amount of related party management fees for the year ended December 31, 2019 was \$2,037,290.

There was a total of \$336,135 paid to members of the LLCs in the form of guaranteed payments for the year ended December 31, 2019.

NOTE 11: CONTINGENCIES

Compliance

The Company's compliance with certain laws and regulations is subject to review by the various states in which they operate. Although such reviews could result in adverse decisions, it is the opinion of management that any matters could be resolved without significant impact to the operations of the Company.

Litigation

The Company is contingently liable for claims and judgments resulting from lawsuits incidental to the normal operation of a company. In the opinion of the Company's management, the Company's insurance coverage is adequate to cover claims relating to normal operations and any lawsuit that might adversely impact the Company would not have a material effect on the financial statements. Accordingly, no provision for possible losses is reflected in the financial statements.

Illegal Activity - Federal

Even though medical marijuana dispensaries are legal under Arizona law, they are still illegal under federal law and as such the Company could be subject to fines, penalties, lawsuits or a closure of the Company from the federal government. Management believes that this is minimal risk.

NOTE 12: SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 6, 2020 which is the date the consolidated financial statements were available to be issued. In 2020, domestic and international economies face uncertainty related to the impact of the COVID-19 disease. The Company may be adversely affected through lack of raw materials availability, interruptions in shipping and manufacturing process, idle or vacant facilities, and decrease in revenue. Management is currently evaluating the impact it will have on future operations.

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SUPPLEMENTARY INFORMATION

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South Phoenix
4653 E Cotton Gin Loop, Suite 120
Phoenix, AZ 85040

It's about time.

**INDEPENDENT AUDITOR'S REPORT ON
THE CONSOLIDATED SUPPLEMENTARY INFORMATION**

To the Board of Directors and Members
Alternative Medical Enterprises, LLC and Affiliates

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information concerning equity is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements.

The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements; or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In the Supplementary Information section of our Audit Report and Financial Statements package, dated July 10, 2018, the information relating to investments in subsidiaries was calculated by management using the cost method, rather than the equity method, which is the appropriate method, in accordance with accounting standards generally accepted in the United States ("US GAAP"). According to our analysis of the Consolidated Financial Statements of the entity, this departure from US GAAP does not have a material impact on the fair presentation of the consolidated financial position of the entity, as a whole.

In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

/s/ Atlas CPAs & Advisors PLLC
ATLAS CPAs & Advisors PLLC
Phoenix, Arizona
July 6, 2020



O: 602.431.9288
F: 602.431.9299

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
CONSOLIDATED SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Amount	Percent
REVENUE	\$ 14,482,050	100.0%
Payroll expense	1,303,647	9.0
Professional fees	1,344,261	9.3
Office expense	152,224	1.1
Rent expense	504,336	3.5
Utilities	439,816	3.0
Advertising	202,891	1.4
Repairs and maintenance	193,982	1.3
Insurance expense	169,426	1.2
Travel expense	132,928	0.9
Bank service charges	104,152	0.7
License and fees	81,537	0.6

Telecommunication and internet	66,713	0.5
Bad debt	37,858	0.3
Supplies	34,867	0.2
Meals and entertainment	14,417	0.1
Automobile expense	13,000	0.1
Dues and subscriptions	9,786	0.1
Cash donations	2,200	0.0
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	\$ 4,808,041	33.2%

See independent auditor's report on supplementary information.

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2019**

ASSETS									
	Alternative Medical Enterprises, LLC	Agronomy Holdings, LLC	Agronomy Innovations, LLC	AltMed, LLC	Fort Consulting LLC	MuV Health LLC	NuTrae, LLC	Elimination	Total
CURRENT ASSETS									
Cash and cash equivalents	\$ 5,495	\$ 9,792	\$ 921,491	\$ 10,577	\$ 943,628	\$ 26,203	\$ 18,224	\$ -	\$ 1,935,410
Accounts receivable	-	-	-	-	400,040	-	3,502	-	403,542
Notes receivable	163,895	914,322	-	-	-	-	-	-	1,078,217
Inventories	-	-	382,206	-	1,773,760	229,460	-	-	2,385,426
Due from, related party	84,593	-	6,609,549	287,000	33,110	10,000	2,050,270	(9,074,522)	-
Prepaid expenses	117,886	-	184,351	-	-	-	-	-	302,237
TOTAL CURRENT ASSETS	371,869	924,114	8,097,597	297,577	3,150,538	265,663	2,071,996	(9,074,522)	6,104,832
LONG-TERM ASSETS									
Property and equipment, net	82,390	-	4,312,942	542,672	-	-	-	-	4,938,004
Intangible assets, net	-	-	5,106,838	88,570	-	-	-	-	5,195,408
Investments, net	39,686,509	19,840,466	-	23,904,715	-	-	-	(59,526,975)	23,904,715
Security deposits	-	-	33,554	6,400	-	-	200	-	40,154
TOTAL LONG-TERM ASSETS	39,768,899	19,840,466	9,453,334	24,542,357	-	-	200	(59,526,975)	34,078,281
TOTAL ASSETS	\$40,140,768	20,764,580	\$17,550,931	\$24,839,934	\$3,150,538	\$265,663	\$2,072,196	\$(68,601,497)	\$40,183,113

LIABILITIES AND MEMBERS' EQUITY									
	Alternative Medical Enterprises, LLC	Agronomy Holdings, LLC	Agronomy Innovations, LLC	AltMed, LLC	Fort Consulting, LLC	MuV Health LLC	NuTrae, LLC	Elimination	Total
CURRENT LIABILITIES									
Accounts payable	\$ 19,159	\$ -	\$ 75,504	\$ 350	\$ 404,187	\$ 65,250	\$ 15,744	\$ -	\$ 580,194
Accrued expenses and other liabilities	6,817	-	287,229	-	80,645	-	1,020	-	375,711
Due to related parties	1,111,585	-	2,337,270	-	5,109,174	421,900	94,593	(9,074,522)	-
Notes payable	-	-	1,000,000	-	-	-	-	-	1,000,000
Current portion of capital leases	-	-	22,020	-	-	-	-	-	22,020
TOTAL CURRENT LIABILITIES	1,137,561	-	3,722,023	350	5,594,006	487,150	111,357	(9,074,522)	1,977,925

LONG-TERM PORTION OF CAPITAL LEASES	-	-	11,896	-	-	-	-	-	11,896
TOTAL LIABILITIES	1,137,561	-	3,733,919	350	5,594,006	487,150	111,357	(9,074,522)	1,989,821
MEMBERS' EQUITY	39,003,207	20,764,580	13,817,012	24,839,584	(2,443,468)	(221,487)	1,960,839	(59,526,975)	38,193,292
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$40,140,768	\$20,764,580	\$17,550,931	\$24,839,934	\$ 3,150,538	265,663	\$2,072,196	\$(68,601,497)	\$40,183,113

See independent auditor's report on supplementary information.

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**ALTERNATIVE MEDICAL ENTERPRISES, LLC AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATION
DECEMBER 31, 2019**

	Alternative Medical Enterprises, LLC	Agronomy Holdings, LLC	Agronomy Innovations, LLC	AltMed, LLC	Fort Consulting, LLC	MuV Health LLC	NuTrae, LLC	Elimination	Total
Net Revenues	\$ -	\$ -	\$ 9,998,619	\$ -	\$13,981,195	\$ -	\$1,068,591	\$(10,566,355)	\$14,482,050
Cost of Revenues	16,033	-	3,812,555	-	13,249,504	-	82,428	(8,539,642)	8,620,878
Gross Profit (Loss)	(16,033)	-	6,186,064	-	731,691	-	986,163	(2,026,713)	5,861,172
General and Administrative Expenses	887,710	-	3,628,089	-	2,075,148	221,487	22,320	(2,026,713)	4,808,041
Amortization	-	-	1,256,161	44,286	-	-	-	-	1,300,447
Depreciation	5,885	-	404,187	35,105	-	-	-	-	445,177
Income (Loss) from Operations	(909,628)	-	897,627	(79,391)	(1,343,457)	(221,487)	963,843	-	(692,493)
Other Income (Expense)									
Income from investee	-	50,619	-	7,985,565	-	-	-	-	8,036,184
Interest expense	(3,871)	-	-	-	-	-	-	-	(3,871)
Loss on sale of property and equipment	-	-	(25,077)	-	-	-	-	-	(25,077)
Interest income	53	178	779	192	-	-	16	-	1,218
Total Other Income (Expense)	(3,818)	50,797	(24,298)	7,985,757	-	-	16	-	8,008,454
Net Income (Loss)	\$ (913,446)	\$ 50,797	\$ 873,329	\$7,906,366	\$ (1,343,457)	\$(221,487)	\$ 963,859	\$ -	\$ 7,315,961

See independent auditor's report on supplementary information.

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2. “Changes in and Disagreements with Accountants on Accounting and Financial Disclosure” contained within the Registration Statement

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company retained Baker Tilly US, LLP (“**Baker Tilly**”) as its independent registered public accounting firm effective June 25, 2021, and for the fiscal year ended December 31, 2021. From inception through the interim period on or prior to the appointment of Baker Tilly, neither the Company nor anyone on its behalf has consulted with Baker Tilly on either (a) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company’s financial statements, or (b) any matter that was the subject of a disagreement, as that term is defined in Item 304 of Regulation S-K under the Exchange Act (“**Regulation S-K**”) or a reportable event as set forth in Item 304 of Regulation S-K.

On June 25, 2021, upon the Company’s request, Macias Gini & O’Connell LLP (“**MGO**”) stepped down for the year ended December 31, 2021 as the Company’s independent registered public accounting firm upon the Company retaining Baker Tilly, as noted above. The change was considered and approved by the Company’s Audit Committee and Board. The audit reports of MGO on the financial statements of Verano LLC as of and for the fiscal years ended December 31, 2020 and 2019 did not contain any adverse opinion or disclaimer of opinion, nor was any opinion qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal years ended December 31, 2020 and 2019, and during the period of January 1, 2021 through the date MGO stepped down, there were no disagreements with MGO on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures that, if not resolved to MGO’s satisfaction, would have caused MGO to make reference in connection with its opinion to the subject matter of the disagreement. No “reportable events”, as that term is described in Item 304 of Regulation S-K, occurred within the fiscal years ended December 31, 2020 and 2019, and subsequently up to the date MGO stepped down.

Upon the consummation of the Go Public Transactions and the Company’s retention of MGO for the Company, the Company dismissed Hill, Barth & King LLC (“**HBK**”), the prior independent registered public accounting firm for (i) AME for the year ended December 31, 2020 and (ii) Plants of Ruskin for the years ended December 31, 2020 and 2019.

The change from HBK to MGO was considered and approved by the Audit Committee and Board. The audit reports of HBK on the financial statements of the AME Group as of and for the fiscal year ended December 31, 2020 and on the financial statements of Plants of Ruskin for the years ended December 31, 2020 and 2019 did not contain any adverse opinion or disclaimer of opinion, nor was any opinion qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal years ended December 31, 2020 and 2019, and during the period of January 1, 2021 through the date of dismissal, there were no disagreements with HBK on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures that, if not resolved to HBK’s satisfaction, would have caused HBK to make reference in connection with its opinion to the subject matter of the disagreement. No “reportable events”, as that term is described in Item 304 of Regulation S-K, occurred within the fiscal years ended December 31, 2020 and 2019, and subsequently up to the date of dismissal.

We provided a copy of this disclosure to MGO and HBK and requested that each of MGO and HBK furnish us with a letter addressed to the SEC stating whether it agrees with the above statements, and if not, stating the respects in which it does not agree. A copy of the letters from each of MGO and HBK addressed to the SEC, are filed as Exhibits 16.1 and 16.2 to this Registration Statement.

**3. “Management’s Discussion and Analysis of
Financial Condition and Results of Operations”
contained within the Registration Statement**

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

OVERVIEW OF THE COMPANY

Verano is a leading vertically-integrated multi-state cannabis operator in the United States. An operator of licensed cannabis cultivation, processing, wholesale distribution and retail facilities, our goal is the ongoing development of communal wellness by providing responsible access to regulated medical and adult-use cannabis products to discerning high-end customers. As of March 25, 2022 we operate businesses in 15 US states, including 93 retail dispensaries, 12 cultivation facilities and 13 processing and manufacturing facilities with over 1,000,000 square feet of cultivation. We produce a suite of premium, artisanal cannabis products sold under our portfolio of consumer brands, including Encore™, Avexia™, MÜV™ and Verano™. We also design, build and operate branded dispensary environments including Zen Leaf™ and MÜV™ that deliver a cannabis shopping experience in both medical and adult-use markets.

Notwithstanding the permissive regulatory environment of medical, and in some cases, recreational marijuana, at the state level, it remains illegal under US federal law to cultivate, manufacture, distribute, sell or possess marijuana in the US. Because federal law prohibits transporting any federally restricted substance across state lines, cannabis cannot be transported across state lines. As a result of current federal law prohibitions, the US cannabis industry is conducted on a state-by-state basis. To date, in the United States 39 states plus the District of Columbia and the US territories of Puerto Rico, the US Virgin Islands, Guam and Commonwealth of Northern Marina Islands have authorized medical marijuana and 20 states plus the District of Columbia and the US territories of Guam, and the Commonwealth of Northern Marina Islands have authorized adult-use (i.e. recreational) marijuana. Verano operates within states where cannabis use, medical or adult-use or both, has been approved by state and local regulatory bodies. Strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under US federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company or any of its subsidiaries.

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

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

SELECTED RESULTS OF OPERATIONS

The following presents selected financial data derived from the audited consolidated financial statements for the years ended December 31, 2021, 2020 and 2019. The selected consolidated financial information below may not be indicative of the Company's future performance.

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

(\$ in thousands)	As of and for the year ended December 31,		2021 – 2020
	2021	2020	\$ Change
Revenue, net of discounts	\$ 737,850	\$ 228,530	\$ 509,320
Gross Profit	334,563	135,569	198,994
Net Income (Loss) attributable to Verano Holdings Corp.	(14,676)	38,401	(53,077)
Net Income (Loss) per share – basic	(0.05)	0.15	(0.20)
Net Income (Loss) per share - diluted	(0.05)	0.14	(0.19)

Revenue, net of discounts

Revenue for the year ended December 31, 2021 was \$737,850 an increase of \$509,320 or 222.9%, compared to revenue of \$228,530 for the year ended December 31, 2020. The increase in revenue was primarily driven by significant retail and cultivation expansion into the Arizona, Connecticut, Florida, and Pennsylvania markets. In addition, production output and sales of flower expanded in the Illinois, Maryland, New Jersey, and Ohio markets, further increasing revenue.

Gross Profit

Gross profit for the year ended December 31, 2021 was \$334,563 representing a gross margin on the sale of cannabis, cannabis extractions and edibles and from related accessories of 45.3%. This is compared to gross profit for the year ended December 31, 2020 of \$135,569, which represented a 59.3% gross margin. The increase in gross profit is primarily due to top-line growth catalyzed by strong market growth in Illinois and expansion into the Arizona, Connecticut, Florida, and Pennsylvania markets.

Net Income (Loss)

Net loss attributable to the Company for the year ended December 31, 2021 was \$(14,676) a decrease of \$(53,077), compared to a net income of \$38,401 for the year ended December 31, 2020. The decrease in net income was driven by an increase in income tax expense.

(\$ in thousands)	As of and for the year ended December 31,		2021 – 2020
	2021	2020	\$ Change
Cost of goods sold, net	\$ 403,287	\$ 92,961	\$ 310,326
General and Administrative	100,903	23,838	77,065
Sales and Marketing Expense	8,644	919	7,725
Salaries and Benefits	78,634	16,228	62,406
Depreciation and Amortization	41,784	2,278	39,506
Total Operating Expense	229,965	43,263	186,702
Other Expenses	15,723	12,546	3,177
Provision for Income Taxes	104,127	42,296	61,831

Cost of Goods Sold, net

Cost of goods sold includes the costs directly attributable to cultivating and processing cannabis and for retail purchases of finished goods, such as flower, edibles, and concentrates. Cost of goods sold for the year ended December 31, 2021 was \$403,287, an increase of \$310,326 or 333.8%, from the year ended December 31, 2020. The increase was primarily driven by the acquisitions of the AltMed cultivation facilities in Arizona and Florida, the Territory cultivation facility in Arizona, the Agri-Kind cultivation facility in Pennsylvania and continued expansion at existing facilities. On the retail side, the increase is due to expansion of sales and continued store openings.

Total Operating Expenses

Total operating expenses for year the ended December 31, 2021 were \$229,965, an increase of \$186,702 or 431.6%, compared to total operating expenses of \$43,263 for the year ended December 31, 2020. Total operating expenses as a percentage of revenue was 33.3% and 24.4% for the years ended December 31, 2021 and 2020, respectively. The increase was primarily due to a \$62,406 increase in salaries and benefits and a \$77,065 increase in general and administrative expenses driven by the expansion into four new markets and continued growth in existing markets which lead to an increase in employee headcount and fixed assets.

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

Total Other Expense

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

Provision for Income Taxes

Income tax expense for the year ended December 31, 2021 was \$104,127, an increase of \$61,831 or 146.2% as compared to the year ended December 31, 2020. The increase in income taxes was due the increase in top line revenues year over year.

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

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

Revenue, net of discounts

Revenue for the year ended December 31, 2020 was \$228,530, an increase of \$162,562 or 246.4%, compared to revenue of \$65,968 for the year ended December 31, 2019. The increase was primarily due to increased supply capacity and demand in Illinois, along with expansion into Arkansas, Maryland, Massachusetts, New Jersey, Ohio, and Pennsylvania leading to the opening of 15 dispensaries in these markets.

Gross Profit

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

Net Income (Loss)

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

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

Cost of Goods Sold, net

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

Total Operating Expenses

Total operating expenses for the year ended December 31, 2020 were \$43,263, an increase of \$4,127 or 10.5%, compared to total operating expenses of \$39,137 for fiscal year ended December 31, 2019. Total operating expenses as a percentage of revenue, net of discounts, was 24.4% and 66.8% for the years ended December 31, 2020 and 2019, respectively. The increase in total operating expenses was primarily due to a \$9,997 or 160.4% increase in salaries and benefits, which was driven by an increase in headcount from the Company's primary operating markets, start-up costs in new markets, and transaction costs relating to the RTO of \$2,764.

Total Other Expense

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

Provision for Income Taxes

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

Verano - Results of Operations – Segments

The Company has two reportable segments: (i) Cultivation (Wholesale) and (ii) Retail. The following tables summarize revenues net of sales discounts by segment for the years ended December 31, 2021 and 2020:

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

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

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

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

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

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

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

Revenues, net of discounts for the retail segment were \$88,470 for the year ended December 31, 2020, an increase of \$65,545 or 285.9%, excluding intersegment eliminations, compared to the year ended December 31, 2019. The increase in retail revenues, net of discounts, was primarily driven by sales in Illinois, supported by continued growth

in Maryland, Ohio, and Nevada. New retail expansion in Arkansas, Massachusetts, New Jersey, and Pennsylvania helped contribute to overall growth.

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

Drivers of Operational Performance

Revenue

The Company derives its revenue from both its cultivation (wholesale) in which it manufactures, sells and distributes 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 year ended December 31, 2021, approximately 26.9% of revenue was generated from the wholesale business and approximately 73.1% from the retail business. For the year ended December 31, 2020, approximately 63.8% of revenue was generated from the wholesale business and approximately 36.2% from the retail business. For the year ended December 31, 2019, approximately 66.8% of revenue was generated from the wholesale business and approximately 33.2% from the retail business. This change in mix was largely driven by the opening and acquisition of additional retail stores throughout the years ended December 31, 2020 and 2021.

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

Gross Profit

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

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

Total Expenses

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

Selling costs generally correlate to revenue. As a percentage of sales, selling costs are expected to increase slightly in currently operational markets (Arizona, Arkansas, Connecticut, Florida, Illinois, Maryland, Massachusetts, Michigan, Missouri, 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 wholesale channels and the ramp up from pre-revenue to sustainable market share.

General and administrative ("G&A") expenses represent costs incurred at the Company's corporate offices, primarily related to personnel costs, including salaries, benefits, and other professional service costs, including legal and

accounting. Going forward, G&A expenses are expected to continue in line with the Company's expansion plans. Furthermore, the Company expects to continue to incur acquisition and transaction costs related to these expansion plans and anticipates an increase in stock compensation expenses related to recruiting and hiring talent, along with legal and professional fees associated with being a publicly traded company.

Provision for Income Taxes

The Company is subject to income taxes in the jurisdictions in which it operates and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. As the Company operates in the cannabis industry, it is subject to the limits of Section 280E of the Code under which the Company is only allowed to deduct expenses directly related to the sale of products. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under Section 280E of the Code and a higher effective tax rate than most industries. 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 year ended December 31, 2021, the uncertain nature of the spread of COVID-19 may impact our business operations for reasons including the potential quarantine of our employees or those of our supply chain partners. Our ability to continue to operate without any significant negative operational impact from the COVID-19 pandemic will in part depend on our ability to protect our employees, customers and supply chain partners. The Company takes a cautious approach in allocating its capital to maximize its returns while ensuring appropriate liquidity. Given the current uncertainty of the future economic environment, the Company has taken additional measures in monitoring and deploying its capital to minimize the negative impact on its current operations and expansion plans.

Plants of Ruskin on a Consolidated Basis for the Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Revenue for the fiscal year ended December 31, 2020, was \$105,661 representing an increase of \$66,290 or 168%, compared to revenue of \$39,371 for the fiscal year ended December 31, 2019. The increase in revenue was driven by a full fiscal year of revenue from the 11 retail locations opened in prior years plus the addition of 18 locations.

Cost of Goods Sold

Cost of goods sold are derived from costs related to internal cultivation. Cost of goods sold for the fiscal year ended December 31, 2020 was \$23,360 representing an increase of \$11,378 or 95% compared to cost of goods sold of \$11,982 for the fiscal year ended December 31, 2019. The increase was primarily driven by the increased revenue due to expansion. In addition, the cost of sales also includes costs related to other products acquired from other producers and sold by Plants of Ruskin.

Gross Profit

Gross profit for the fiscal years ended December 31, 2020, and 2019, was \$82,300 and \$27,389 respectively, representing a gross margin on the sale of cannabis, cannabis extractions, and from related accessories of 78% and 70%, for the years ended December 31, 2020, and 2019, respectively. The increase in gross profit margin is mainly due to the expansion of its captive cultivation site.

Operating Expenses

Operating expenses for the fiscal year ended December 31, 2020, was \$21,246, representing an increase of \$12,147 or 133% compared to operating expenses of \$9,099 for the fiscal year ended December 31, 2019, which represents 20% of revenue for the fiscal year ended December 31, 2020, compared to 23% of revenue for the prior year. The overall increase in operating expenses was attributable to continued expansion of operations in Florida.

Plants of Ruskin had marketing and advertising expense of \$982 in 2020 which represented an increase from 2019 marketing and advertising expense of \$607. This increase is primarily due to Plants of Ruskin's operations in Florida of 29 retail dispensaries as of December 31, 2020, as compared to 11 retail dispensaries as of December 31, 2019. In

addition, each retail location incurred a large amount of marketing expenses, particularly around the opening, ongoing online presence, and search engine optimization strategies for each location. Plants of Ruskin continues to implement key advertising and marketing strategies to raise awareness in the market of the brand and additional retail locations. Depreciation and amortization expense was \$4,476 for the fiscal year ended December 31, 2020, representing a \$1,575 increase from \$2,901 for the fiscal year ended December 31, 2019. The increase was due to the expansion of the cultivation site and continued expansion of retail dispensary locations.

Income from Operations

Income from operations for the fiscal year ended December 31, 2020, was \$61,054 an increase of \$42,764 or 234%, compared to income from operations of \$18,290 for the fiscal year ended December 31, 2019. The increase was driven by a full fiscal year of revenue from the 11 retail locations opened in prior years plus the addition of 18 retail locations.

Other Income (Expenses)

Other Income

Other income was \$109 for the fiscal year ended December 31, 2020, compared to \$36 for the fiscal year ended December 31, 2019. The increase was due to the increase in ATM commissions from the additional retail dispensary locations.

Other Expenses

Other expenses were \$1,423 for the fiscal year ended December 31, 2020, compared to \$334 for the fiscal year ended December 31, 2019. The increase was primarily due to increased leased dispensary locations and implementing ASC 842 – Lease Accounting.

Total Assets

Total assets increased by \$53,214 to \$103,893 for the fiscal year ended December 31, 2020, from \$50,678 for the fiscal year ended December 31, 2019. The increase was due to the continued expansion of retail.

AME on a Consolidated Basis for the Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Operating revenue for fiscal year ended December 31, 2020 and 2019 was \$20,648 and \$14,482 respectively, an increase of \$6,166 or 43% year over year. Operating revenue consists of sales out of the Müv dispensary, wholesale sales consisting of product sold to other dispensaries within the state of Arizona, MüvHealth CBD products, and other revenue. Most sales come from dispensary sales and wholesale sales.

Revenue increased year over year due to the increase is due to two main drivers. The first is the increase in gummy sales. During 2020, AME produced Wana gummy products which increased in sales due in large part to the popularity of the product and the introduction of a 300 mg product. The second driver for the increase in sales relates to bulk flower. In the fourth quarter of 2019 the bulk price per pound of Müv flower was increased. As demand increased in 2020, AME continued to increase the price. The average wholesale price for a pound of flower increased on average \$635/lb. from 2019. While the total pounds sold through wholesale decreased year over year, total revenue related to bulk flower sales remained unchanged. The flower that would have been sold wholesale was routed to the dispensary where flower sales averaged \$360/lb. more than if sold wholesale.

During 2020, the cultivation site reached capacity and some product categories were no longer sold through the wholesale channel. Concentrates (shatter, crumble, etc.) and vape cartridges were sold through dispensaries and not sold wholesale. With the limitations in production capacity, biomass resources were allocated to the production of gummies, flower, and a sufficient number of other product categories to sell through dispensaries.

In 2020 total pounds sold of flower were 2,548 lbs., an increase of 448 lbs. (21%) from 2019. While this allowed for record sales in 2020, it was determined early in 2020 that AME needed to expand production capacity. An additional 2,000+ square foot flower room was placed in service in Q4 of 2020. The first harvest date was in the fourth quarter of 2020, with the biomass beginning to be sold in 2021. In addition, AME entered a contract to build a semi-enclosed greenhouse on the property it purchased in 2020.

Cost of Goods Sold

Cost of goods sold are derived from costs related to the internal cultivation and production of cannabis and from retail and wholesale purchases from other licensed producers operating within our state markets. Cost of goods sold for the fiscal year ended December 31, 2020 was \$9,804 representing an increase of \$1,183 or 14% compared to cost of goods sold of \$8,621 for the fiscal year ended December 31, 2019. In 2020, AME focused on selling their Müv™ products out of its own dispensaries. This resulted in a 254% increase in products sold through AME dispensaries. This in turn reduced the cost of revenue for dispensary sales since the produced product have a lower cost than third-party products that would have otherwise been purchased.

Gross Profit

Gross Profit for the fiscal years ended December 31, 2020 and 2019 was \$10,845 and \$5,861, representing a gross margin of 52.5% and 40.5%, respectively. The increase in gross profit margin is attributable to an increase in top line revenue of the sale of cannabis and cannabis infused products.

General and Administrative Expenses

General and administrative expenses for the fiscal year ended December 31, 2020 was \$4,544, representing a decrease of \$264 or (5.8%) compared to general and administrative expense of \$4,808 for the fiscal year ended December 31, 2019. 2020 selling, general, and administrative (“SG&A”) expenses are comprised of general and administrative expenses and the costs associated with operating the dispensary and wholesale sales departments. Largely, the 2020 SG&A expense is related to legal expenses accrued at year end to account for fees incurred stemming from the Go Public Transactions.

Depreciation and Amortization

Depreciation and amortization expense was \$1,379 for the fiscal year ended December 31, 2020, representing a decrease of \$367 or (26.6%) from \$1,746 for the fiscal year ended December 31, 2019. In 2020 assets were written off resulting in a loss on the disposal of the assets, but the overall depreciation expense for the year was also reduced. Amortization expense for the year consists of three intangible assets, those being the cultivation and management fee agreement between Agronomy Innovations LLC and Fort Consulting, a right to use agreement, and a buyout of investor equity dating back to 2015. The values of both the right to use and buyout agreements were written down to zero in 2020. Thereafter, the only intangible asset to be amortized was the cultivation and management fee agreement for the dispensaries where flower sales averaged \$360/lb. more than if sold wholesale.

Income (Loss) from Operations

Income (loss) from operations for the fiscal year ended December 31, 2020 was \$4,922 an increase of \$5,615 compared to loss from operations of (\$693) for the fiscal year ended December 31, 2019. The increase in income from operations is attributable to the year over year decrease of SG&A, amortization and depreciation expense.

Provision for Income Taxes

Fort Consulting, LLC is a non-profit entity for Arizona income tax purposes and it elected to be taxed as a C-corporation for U.S. Federal tax purposes. Therefore, income taxes are provided for the tax effects of transactions in the financial statements and consist of taxes currently due, plus deferred taxes related primarily to differences between the basis of certain assets and liabilities for financial and tax reporting.

Deferred taxes are provided on the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in the tax laws and rates on the date of enactment.

Other Income (Expenses)

Other Income

Other income was \$25,407 for the fiscal year ended December 31, 2020, compared to \$8,037 for the fiscal year ended December 31, 2019. The increase was due to the increase in income from investments in related companies.

Other Expenses

Other expenses were \$591 for the fiscal year ended December 31, 2020, compared to \$29 for the fiscal year ended December 31, 2019. The increase was primarily due to a loss on the sale of property and equipment.

Total Assets

Total assets increased by \$24,043 to \$64,226 for the fiscal year ended December 31, 2020, from \$40,183 for the fiscal year ended December 31, 2019. The increase was due to equity investments and the continued expansion of retail operations.

LIQUIDITY, FINANCING ACTIVITIES AND CAPITAL RESOURCES

As of December 31, 2021 and December 31, 2020 the Company had total current liabilities of \$469,855 and \$116,289, respectively. As of December 31, 2021 and December 31, 2020, the Company had cash and cash equivalents of \$99,118 and \$16,402, respectively, to meet its current obligations. As of December 31, 2021 and December 31, 2020, the Company had working capital of (\$195,880) and (\$45,041), respectively. This significant change in working capital is due to the large-scale capital investments and acquisitions made, including in Arizona, Connecticut, Florida, Illinois, New Jersey, Ohio, and Maryland.

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 near 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.

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

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

Sources and Uses of Cash

Cash Used in Operating Activities, Investing and Financing Activities

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

	Years ended December 31,		
	2021	2020	2019
Net Cash Provided by (Used in) Operating Activities	\$ 181,197	\$ 71,627	\$ (6,660)
Net Cash (Used in) Investing Activities	(454,157)	(86,908)	(84,118)
Net Cash Provided by Financing Activities	355,676	25,266	24,108

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

Contractual Obligations

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

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

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

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

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

Off-Balance Sheet Arrangements

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

Changes in or Adoption of Accounting Practices

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

CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS, AND ASSUMPTIONS

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

Estimated Useful Lives and Amortization of Intangible Assets

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

Inventories

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

Determination of Reporting Units

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

Business Combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its transaction-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with ASC 450, *Contingencies*, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an

independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Certain fair values may be estimated at the transaction date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the transaction date.

Consolidation

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

Income Tax

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

Financial Risk Management

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

Credit Risk

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

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as the majority of its sales are transacted with cash.

Liquidity Risk

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

Market Risk – Interest Rate Risk

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

Market Risk – Price Risk

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

Banking Risk

Notwithstanding that a majority of states have legalized medical and/or adult-use cannabis, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit, funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the Company and leaves their cash holdings vulnerable.

Asset Forfeiture Risk

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

Regulatory Risk

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

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

Tax Risk

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

**4. Information regarding the
Company's Directors and Executive
Officers contained within the
Registration Statement**

DIRECTORS AND EXECUTIVE OFFICERS

Our Directors and Executive Officers

The below table and biographies provide information regarding the Directors and the Company's executive officers as of March 25, 2022.

<u>Name and Age</u>	<u>Positions</u>
George Archos ⁽¹⁾ Age: 43	Chairman & Chief Executive Officer
R. Michael Smullen Age: 67	Director & Executive Director of MÜV Enterprises
Edward Brown ^{(1), (2)} Age: 59	Director
Cristina Nuñez ^{(1), (2)} Age: 37	Director
John Tipton Age: 61	President
Brett Summerer Age: 45	Chief Financial Officer
Darren Weiss Age: 38	Chief Operating Officer, Chief Legal Officer, General Counsel & Secretary
Aaron Miles Age: 43	Chief Investment Officer
Destiny Thompson Age: 41	Chief People Officer

(1) Member of the audit committee of the Board.

(2) Member of the compensation committee of the Board.

George Archos, Chairman and Chief Executive Officer

Mr. Archos has served as Chairman and Chief Executive Officer of the Company since February 2021 upon consummation of the RTO. Mr. Archos co-founded Verano LLC in September 2017, and served as Verano LLC's Chairman and Chief Executive Officer until February 2021 when Verano LLC became a subsidiary of the Company in the Go Public Transactions. Mr. Archos has significant executive-level experience in the logistics, delivery and operations business verticals. Mr. Archos entered the cannabis industry in 2014 when he founded Ataraxia Grow and Labs, an Illinois based medical cannabis growth and cultivation company ("**Ataraxia**"), where he led Ataraxia's successful effort to obtain one of the first issued medical cannabis growth license in Illinois. Mr. Archos began his career in the hospitality industry in 2001 and is President and Owner of eight restaurants located throughout Illinois. Mr. Archos attended Loyola University in Chicago where he studied communications and philosophy. As a co-founder of Verano LLC, Mr. Archos brings to the Board substantial insight and business experience with respect to the cannabis industry, the founding and building of Verano LLC and leading the Go Public Transactions, as well as his successful investment and business experience in logistics, delivery and operations business verticals in the cannabis and hospitality industries.

R. Michael Smullen, Director and Executive Director of MÜV Enterprises

Mr. Smullen has served as a Director of the Company and Executive Director of MÜV Enterprises since February 2021 upon consummation of the RTO, and Mr. Smullen served as Corporate Secretary of the Company from February 2021 until December 31, 2021. Mr. Smullen co-founded AltMed in October 2014 and served as AltMed's Chief Executive Officer and Chairman until February 2021 when the AME Group was acquired by the Company in the Go Public Transactions. Prior to entering the cannabis industry, Mr. Smullen spent 31 years in the pharmaceutical and biotech industries, where he built and led commercial operations for several companies. From May 1994 to July 2007, Mr. Smullen held various executive-level positions with MedImmune, LLC, a pharmaceutical company based in Maryland ("**MedImmune**"), which successfully launched the first monoclonal antibody approved in the US for an infectious disease. In 2007, Mr. Smullen was part of the executive team that secured MedImmune's \$15.6 billion acquisition by AstraZeneca plc. Mr. Smullen graduated from Norwich University in 1976 and holds degrees in History and Criminal Justice. Mr. Smullen brings to the Board substantial insight with respect to the cannabis industry and extensive senior management experience through his leadership positions with the AltMed Group as well as his successful business experience in building and integrating business operations and acquisitions in the cannabis, pharmaceutical and biotech industries.

Edward Brown, Director

Mr. Brown has served as a Director of the Company since February 2021 upon the consummation of the RTO. Since January 2020, Mr. Brown has served as Chairman and Chief Executive Officer of Clear Sports, an innovative sports equipment company. From June 2000 through December 2019, Mr. Brown served as Chief Executive of The Patron Spirit's Company AG ("**Patron**"), where he led the growth of the Patron brand as one of the largest ultra-premium tequilas in the world. In 2018, Mr. Brown completed the sale of the Patron brand to Bacardi Limited for \$5.1 billion. Prior to joining Patron, Mr. Brown spent ten years with Seagram Company Ltd., then one of the largest liquor companies in the world, where he held many executive positions between 1990 and 2000. Mr. Brown graduated from the University of Texas in 1985 and holds a Bachelor of Business Administration in Marketing. Mr. Brown's senior executive positions with public companies in branded businesses brings substantial senior leadership, vast business experience and public company insight to the Board. Mr. Brown's management oversight of expanding branded businesses by product offering and geographic footprint adds value to overseeing and assessing the Company's expansion plans by product and geographic markets.

Cristina Nuñez, Director

Ms. Nuñez has served as a Director of the Company since February 2021 upon the consummation of the RTO. Ms. Nuñez is a Partner with True Beauty Ventures, which she co-founded in April 2020. True Beauty Ventures is an emerging growth venture capital fund focused on identifying, partnering with, and scaling beauty, wellness and personal care companies. Prior to launching True Beauty Ventures in 2020, Ms. Nuñez spent half of her career as an operator in beauty and wellness. From May 2017 through April 2019, she was the General Manager and Chief Operating Officer of Clark's Botanicals, a clean, botanical skincare brand with international ecommerce and prestige wholesale distribution. From October 2014 to May 2017, Ms. Nuñez held various executive leadership and operating roles at Laura Geller Beauty, a global, prestige makeup brand. Ms. Nuñez spent seven years with various prominent private equity firms and investment banks, including Tengram Capital Partners, L Catterton and UBS. Ms. Nuñez graduated *magna cum laude* from Duke University in May 2007 and holds a Bachelor of Arts with Highest Distinction in Public Policy Studies and Political Science. Ms. Nuñez's work experience in private equity and investment banking brings financial analysis and capital markets expertise to the Board, while her experiences with emerging growth companies in scaling their operations adds substantial value in assessing and implementing the Company's strategic plan as it scales its operations in the emerging cannabis markets.

John Tipton, President

Mr. Tipton has served as President of the Company since February 2021 upon consummation of the RTO. Beginning in 1997, Mr. Tipton served as Chief Executive Officer of Artesian Farms, Dickman Investments and Plants of Ruskin, a subsidiary of the Company since February 2021 upon the consummation of the Go Public Transactions. Mr. Tipton's acumen in accounting, finance, agriculture, and construction have been directly applied in his role as founder and Chief Executive Officer of Plants of Ruskin. As Chief Executive Officer of Plants of Ruskin, Mr. Tipton successfully

spearheaded the acquisition of a highly coveted vertically integrated medical marijuana treatment center license in Florida. From 1989 to 1997, Mr. Tipton acted as Chief Financial Officer of Harloff Farms. Mr. Tipton earned a degree in accounting (*magna cum laude*) from Wheeling College in 1988 and has been a registered CPA since 1993.

Brett Summerer, Chief Financial Officer

Mr. Summerer has served as Chief Financial Officer of the Company since January 2022. Mr. Summerer joined the Company in December 2021, and at that time served as a financial consultant for the Company until his appointment to Chief Financial Officer. Mr. Summerer brings more than 21 years of diverse leadership experience to the Company's executive team. Throughout his career, he has held leadership positions of increasing responsibility across multiple information technology, manufacturing, and consumer packaged goods ("CPG") companies. Mr. Summerer began his career in the information technology sector at Modern Engineering, and while serving as Head of Information Technology, he managed the firm's budget, vendor contracts, and operational integration for acquisitions. After earning an MBA in 2005, he joined General Motors in 2006, working in Financial Planning and Analysis, Controller and Chief Financial Officer positions in the US and Asian markets. He joined Corning Incorporated in 2016 and served as the head of Financial Planning and Analysis and Supply Chain Finance, and in 2018 gained pharmaceutical industry experience as the Head of Finance for their pharmaceutical business. In 2019, Summerer served as Vice President, Head of Supply Chain Finance and Chief Financial Officer of The Kraft Heinz Company's US Operations, where he led all aspects of the CPG company's financial activities across its extensive national manufacturing footprint in its largest market. Mr. Summerer received two bachelor's degrees from Michigan State University in 1999 in Electrical Engineering and Computer Science and received his master's degree as well in Electrical Engineering in 2000. He received an MBA from the University of Michigan in 2005 and has been a CPA in the state of Illinois since 2007.

Darren Weiss, Chief Operating Officer, Chief Legal Officer, General Counsel and Secretary

Mr. Weiss has served as Chief Legal Officer and General Counsel of the Company since February 2021 upon the consummation of the RTO, as Chief Operating Officer since October 2021 and as Secretary since January 1, 2022. Mr. Weiss joined Verano LLC in September 2017 and served as Verano LLC's General Counsel until February 2021 when Verano LLC became a subsidiary of the Company in the Go Public Transactions. From March 2015 to September 2017, Mr. Weiss was a Principal at Offit Kurman, P.A. based in the firm's Baltimore, Maryland office, where he led the firm's cannabis practice. Mr. Weiss currently sits on the Executive Committee and Board of the Maryland Wholesale Medical Cannabis Trade Association, was named to the *Baltimore Business Journal's* 40 Under 40 List and is identified as a 2017 People to Know in the Law. Offit Kurman, a firm Mr. Weiss co-founded, was awarded a *Maryland Daily Record's* 2016 Innovator of the Year prize. Mr. Weiss received his bachelor's degree *magna cum laude* from Washington University in St. Louis in 2005 and his Juris Doctorate *cum laude* from George Mason University School of Law in 2010. Prior to his legal career, from 2005 through 2007, Mr. Weiss worked as a business consultant with performancesoft, Inc. (later Actuate Corp.), where he provided performance management and business operational consulting services for public and private-sector clients.

Aaron Miles, Chief Investment Officer

Mr. Miles has served as Chief Investment Officer of the Company since June 2021. Mr. Miles joined Verano LLC in September 2020 and served as Head of Investor Relations of Verano LLC and of the Company upon consummation of the RTO, until his promotion to Chief Investment Officer in June 2021. Mr. Miles has worked in a finance capacity for more than 19 years with capital markets, investor relations, treasury, mergers and acquisitions and communication responsibilities throughout a career that has spanned organizations including Cresco Labs from September 2018 to May 2019 and December 2019 to September 2020, the New York Stock Exchange from May 2019 to December 2019, Tribune Publishing from June 2017 to August 2019, Navigant Consulting from December 2014 to June 2017, the CME Group from May 2011 to October 2014, and Abbott Labs from June 2008 to May 2011. Mr. Miles graduated from Central Michigan University in 2002 with a Bachelor of Science in Economics, and from Walsh College in 2005 with a Master of Science in Finance.

Destiny Thompson, Chief People Officer

Ms. Thompson has served as the Chief People Officer of the Company since October 2021. In this role, Ms. Thompson is responsible for leading the Company's overall people strategy, which includes workforce planning; talent management; learning and development; diversity, equity, and inclusion; acquisitions and integration and overall employee engagement to support the future growth of the company. Ms. Thompson has over 20 years of human resources experience in professional and financial services firms. Her expertise is leading and transforming companies in various industries through their next evolution of supercharged growth, building and scaling the people function to align to the overall business long-term strategy and revenue goals while also maintaining the people first philosophy and culture through continual innovation and change. She has experience in various industries, including technology, higher education, life sciences and financial services. For the 18 months prior to joining the Company, Ms. Thompson served as the Chief Human Resource Officer at Stout, an investment banking and financial services firm where she served on the executive team leading Stout's people strategy. Previously Ms. Thompson spent 15 years at Huron Consulting Group leading and scaling many businesses globally for transformative growth. Ms. Thompson earned her B.A. in English Literature at Purdue University. She is a member of Chief, a private network of C-level women that share and cross-pollinate ideas across many industries. Ms. Thompson also serves on the Expert Council for Hacking HR, leading and contributing to conversations about the future of human resources and the evolving workforce.

Corporate Governance

Verano is a British Columbia corporation that is a public reporting company in Canada with the Subordinate Voting Shares listed on the CSE. Since the time of the RTO, we have been subject to British Columbia corporate law, Canadian Securities Administrators' laws, rules and regulations, and the listing standards and rules of the CSE. Our current corporate governance structure, policies and procedures were established and implemented at the time of the RTO in accordance with applicable Canadian laws, rules, regulations and listing standards.

Upon the effectiveness of this Registration Statement, we will become subject to the rules and regulations of the SEC, including the Exchange Act. We also will continue to be subject to Canadian corporate and securities laws, rules, regulations and listing standards for so long as we are a British Columbia corporation that is a public reporting company in Canada with the Subordinate Voting Shares listed on the CSE. As such we will be a "dual reporting company" in both Canada and the US.

Board of Directors

We are managed by the Board, which is comprised of four persons. The current Directors, who have served as Directors since the formation of the Company upon the consummation of the RTO on February 11, 2021, are Mr. Archos, Mr. Smullen, Mr. Brown and Ms. Nuñez. Each Director's term of office will expire at the next annual meeting of shareholders of the Company to be held in 2022 or when his or her successor is duly elected or appointed, unless his or her office is vacated earlier in accordance with the articles of the Company, or he or she becomes disqualified to act as a Director.

Upon their appointment to the Board in February 2021, the Board determined Ms. Nuñez and Mr. Brown were "independent" Directors within the meaning of that term as defined in sections 1.4 and 1.5 of Canadian National Instrument 52-110- *Audit Committees* ("**NI 52-110**"). In addition, our Board has determined that each of Ms. Nuñez and Mr. Brown is "independent" in accordance with the listing rules of the Nasdaq Stock Market ("**Nasdaq**") and applicable SEC rules. The independent Directors are expected to devote sufficient time to the Company's business in order to carry out their duties as directors of the Company; however, being a Director is not the primary occupation of either of the independent Directors. See "**—Our Directors and Executive Officers**" above for additional information about our independent Directors.

**5. Market Price of and Dividends on the
Company's Common Equity and Related
Stockholder Matters
contained within the Registration
Statement**

MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information

The Subordinate Voting Shares are listed in Canada on the CSE under the symbol "VRNO". The Subordinate Voting Shares are also quoted over-the-counter in the United States on the OTCQX under the symbol "VRNOF". The Proportionate Voting Shares are not listed or quoted for trading in Canada, over-the-counter in the United States or in any other jurisdiction.

The Company's articles permit the issuance of an unlimited number of Subordinate Voting Shares and Proportionate Voting Shares. The Subordinate Voting Shares and Proportionate Voting Shares are fully paid.

The Subordinate Voting Shares and Proportionate Voting Shares are managed by the Company's transfer agent and registrar, Odyssey Trust Company.

For additional details regarding the Subordinate Voting Shares and Proportionate Voting Shares, see "*Item 11-Description of the Registrant's Securities to be Registered*".

Shareholders

As of March 25, 2022, there were 586 holders of record of Subordinate Voting Shares and 91 holders of record of Proportionate Voting Shares.

Dividend Policy

There are no restrictions in the Company's articles that prevent the Company from paying dividends. However, the Company has not paid dividends in the past, and it is not anticipated that the Company will pay any dividends in the foreseeable future. Rather, the Company currently intends to retain future earnings, if any, to fund the development and growth of its business and does not intend to pay any cash dividends on its shares for the foreseeable future. Any decision to pay dividends in the future will be made by the Board on the basis of earnings, financial requirements and other conditions existing at the time. All Company Shares are entitled to an equal share in any dividends declared and paid. The Credit Agreement further restricts the Company's ability to pay dividends.

Equity Incentive Plan

The Equity Incentive Plan was approved by Majesta Minerals shareholders on January 27, 2021 and was adopted and approved by the Board on February 11, 2021 upon the consummation of the RTO.

The following table provides certain information as of December 31, 2021 with respect to compensation plans (including any individual compensation arrangements, of which there are none) under which our equity securities are authorized for issuance, aggregated as follows.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities issuable upon exercise of outstanding options, warrants and rights)</u>
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Equity compensation plans approved by securityholders

					28,676,556	
Equity Incentive Plan	2,706,200	Subordinate Voting	Shares(1)	\$	2,370.10(2)	Voting
					Shares (3)	

Equity Compensation plans not approved by security holders

None

					28,676,556	
Total	2,706,200	Subordinate Voting	Shares	\$	2,370.10	Voting
					Shares	

(1) Represents 4,318 Company RSUs granted under our Equity Incentive Plan and 53.7 Company Options granted under our Equity Incentive Plan. Each Company RSU vests into one Proportionate Voting Share and each Company Option is exercisable for one Proportionate Voting Share. Each Proportionate Voting Share is exchangeable into Subordinate Voting Shares at an exchange rate of 100 to 1.

(2) The weighted average exercise price of the Company Options granted under our Equity Incentive Plan is converted to US dollars based on the exchange rates published by Bank of Canada on the day before the grant dates of the Company Options.

(3) Pursuant to the Equity Incentive Plan, the aggregate number of Shares that may be issued under the Equity Incentive Plan is equal to 10% of the shares of the Company outstanding (i.e. the Subordinate Voting Shares plus the Proportionate Voting Shares on an as-converted basis of 100 Subordinate Voting Shares for one Proportionate Voting Share).

**6. Performance graph required by Rule 14a-3(b)
(9) of the Securities Exchange Act of 1934, as
amended**

Comparison of Cumulative Total Return

Among Verano Holdings Corp., Russell 2000 Index, and a Selected Peer Group

