

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including but not limited to those described in the "Risk Factors" section of this Annual Report on Form 10-K. Actual results may differ materially from those contained in any forward-looking statements. You should read "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" contained in this Annual Report on Form 10-K.

Overview

Trulieve is a vertically integrated cannabis company and multi-state operator which currently holds licenses to operate in ten states and has received notice of intent to award a license in an eleventh state. Headquartered in Quincy, Florida, we are the market leader for quality medical cannabis products and services in Florida and we have market leading retail operations in Arizona and Pennsylvania. By providing innovative, high-quality products across our brand portfolio, we aim to be the brand of choice for medical and adult-use customers in all of the markets that we serve. We operate in highly regulated markets that require expertise in cultivation, manufacturing, retail and logistics. We have developed proficiencies in each of these functions and are committed to expanding access to high quality cannabis products and delivering exceptional customer experiences.

All of the states in which we operate have adopted legislation to permit the use of cannabis products for medicinal purposes to treat specific conditions and diseases, which we refer to as medical cannabis. Recreational marijuana, or adult-use cannabis, is legal marijuana sold in licensed dispensaries to adults ages 21 and older. Thus far, of the states in which we operate, only Arizona, California, Colorado, Connecticut, Massachusetts, and Nevada have adopted legislation permitting the commercialization of adult-use cannabis products. Trulieve operates its business through its directly and indirectly owned subsidiaries that hold licenses and have entered managed service agreements in the states in which they operate. As of March 16, 2022, we operated 162 dispensaries, with 113 dispensaries in Florida, 19 affiliated dispensaries in Pennsylvania, 17 dispensaries in Arizona, five dispensaries in California, three dispensaries in Maryland, two dispensaries in Massachusetts, two dispensaries in West Virginia and one dispensary in Connecticut, and we operated cultivation and processing facilities in Arizona, Colorado, Florida, Maryland, Massachusetts, Nevada, Pennsylvania, and West Virginia. As of December 31, 2021, we employed over 9,000 people and we are committed to providing patients and adult consumers, which we refer to herein as "customers," a consistent and welcoming retail experience across Trulieve branded stores and affiliated retail locations.

Our business and operations center around the Trulieve brand philosophy of "Customers First" which permeates our culture beginning with high- quality and efficient cultivation and manufacturing practices, focus on the consumer experience at Trulieve branded and affiliated retail locations, at our in-house call center and where available at customer residences through a robust home delivery program. Our investments in vertically integrated operations in several of our markets afford us ownership of the entire supply chain which mitigates third-party risks and allows us to completely control product quality and brand experience. We believe that this contributes to high customer retention and brand loyalty. We successfully operate our core business functions of cultivation, production and distribution at scale, and are skilled at rapidly increasing capacity without any interruption to existing operations.

Trulieve has identified five regional geographic hubs in the U.S. and has established cannabis operations in three of the five hubs: Southeast, Northeast, and Southwest. In each of our three regional hubs we have market leading positions in cornerstone states and additional operations and assets in other state markets. Our hubs are managed by national and regional management teams supported by our corporate headquarters in Florida.

Southeast Hub

Our southeast hub operations are anchored by our cornerstone market of Florida. Trulieve was the first licensed operator in the medical market in Florida with initial sales in 2016. Publicly available reports filed with the Florida Office of Medical Marijuana Use show Trulieve has the most dispensing locations and the greatest dispensing volume across product categories out of all licensed medical marijuana businesses in the state as of December 31, 2021. Trulieve cultivates and produces all of its products in-house and distributes those products to customers in Trulieve branded stores (dispensaries) throughout Florida, as well as via home delivery.

As of December 31, 2021, Trulieve operated cultivation and processing facilities across thirteen sites and 111 retail dispensaries throughout the state. In accordance with Florida law, Trulieve grows all of its cannabis in secure enclosed indoor facilities and greenhouse structures. In furtherance of our customer-first focus, we have developed a suite of Trulieve branded products, including flower, edibles, vaporizer cartridges, concentrates, topicals, capsules, tinctures, dissolvable powders, and nasal sprays. This wide variety of products gives customers the ability to select the product that consistently delivers the desired effect and in their preferred method of delivery.

In Georgia, Trulieve received a Notice of Intent to award a Class 1 Production License from the Georgia Access to Medical Cannabis Commission in July 2021. The Notice of Intent to award is a notice of the Georgia Access to Medical Cannabis Commission's expected contract award to Trulieve GA pending resolution of a protest process. If the contract is awarded, Trulieve GA will hold one of two Class 1 Production Licenses in the state and will be permitted to cultivate cannabis for the manufacture of low tetrahydrocannabinol, or THC oil.

Northeast Hub

Our northeast hub operations are anchored by our cornerstone market of Pennsylvania.

We conduct cultivation, processing, and retail operations through its direct and indirect subsidiaries with permits for retail operations and grower/processor operations in Pennsylvania. These subsidiaries operate cultivation and processing facilities in McKeesport, Reading, and Carmichael, Pennsylvania to support our affiliated network of retail dispensaries and wholesale distribution network across the state.

We operate three medical dispensaries and conducts wholesale sales supported by cultivation and processing in Hancock, Maryland.

We operate two retail dispensaries in Massachusetts, serving medical adult use customers in Northampton and adult use customers in Worcester. Our retail operations are supported by cultivation and manufacturing operations in Holyoke. We commenced wholesale sales in September 2021. Trulieve was the first to offer sales of clones supporting home grow for residents in the Massachusetts market in August 2021.

We operate a medical cannabis dispensary located in Bristol, Connecticut. Under Connecticut's adult-use cannabis legislation, which was enacted July 1, 2021, Trulieve can seek regulatory approval to expand sales at this dispensary to include adult use sales.

We operate two medical dispensaries in Morgantown and Weston, West Virginia, supported by cultivation and processing operations in Huntington, West Virginia. Trulieve has been awarded and has acquired permits to operate up to a total of nine dispensaries in West Virginia.

Southwest Hub

Our southwest hub operations are anchored by our cornerstone market of Arizona. In Arizona, Trulieve holds a market-leading position, offering medical and adult use customers a wide range of branded and third-party products, including brand partner products. We also serve medical and adult use customers in California. Trulieve conducts wholesale operations in Nevada and Colorado, serving the medical and adult use markets in each state.

Components of Results of Operations

Revenue

We derive our revenue from cannabis products which we manufacture, sell and distribute to our customers by home delivery and in our dispensaries.

Gross Profit

Gross profit includes the costs directly attributable to product sales and includes amounts paid to produce finished goods, such as flower, and concentrates, as well as packaging and other supplies, fees for services and processing, allocated overhead which includes allocations of rent, administrative salaries, utilities, and related costs. Cannabis costs are affected by various state regulations that limit the sourcing and procurement of cannabis product, which may create fluctuations in margins over comparative periods as the regulatory environment changes.

Sales and Marketing

Sales and marketing expenses consist of marketing expenses related to marketing programs for our products. Personnel related costs related to additional dispensaries are the primary costs of sales and marketing. As we continue to expand and open additional dispensaries, we expect our sales and marketing expenses to continue to increase.

General and Administrative

General and administrative expenses represent costs incurred at our corporate offices, primarily related to personnel costs, including salaries, incentive compensation, benefits, and other professional service costs, including legal and accounting. We expect to

continue to invest considerably in this area to support our expansion plans and to support the increasing complexity of the cannabis business. Furthermore, we expect to continue to incur acquisition and transaction costs related to our expansion plans, and we anticipate a significant increase in compensation expenses related to recruiting and hiring talent, accounting, and legal and professional fees associated with becoming compliant with the Sarbanes-Oxley Act and other public company corporate expenses.

Depreciation and Amortization

Depreciation expense is calculated on a straight-line basis using the estimated useful life of each asset. Estimated useful life is determined by asset class and is reviewed on an annual basis and revised if necessary. Amortization expense is amortized using the straight-line method over the estimated useful life of the intangible assets. Useful lives for intangible assets are determined by type of asset with the initial determination of useful life determined during the valuation of the business combination. On an annual basis, the useful lives of each intangible class of assets are evaluated for appropriateness and adjusted if appropriate.

Other Income (Expense), Net

Interest and other income (expense), net consist primarily of interest income, interest expense, and the impact of the revaluation of the liability classified warrants.

Provision for Income Taxes

Provision for income taxes is calculated using the asset and liability method. Deferred income tax assets and liabilities are determined based on enacted tax rates and laws for the years in which the differences are expected to reverse. 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.

As we operate in the cannabis industry, we are subject to the limits of IRC Section 280E under which we are only allowed to deduct expenses directly related to costs of goods sold.

Results of Operations

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

	Year Ended December 31,		Change Increase / (Decrease)	
	2021	2020	\$	%
	<i>(in thousands)</i>			
Revenues, net of discounts	\$ 938,385	\$ 521,533	\$ 416,852	80%

Revenue for the year ended December 31, 2021 was \$938.4 million, an increase of \$416.9 million, from \$521.5 million for the year ended December 31, 2020. Increase in revenue is the result of increased locations, increased or new wholesale operations in specific markets, organic growth in retail sales due to an increase in products available for purchase and overall customer count and acquisitions, most notably the acquisition of Harvest Health & Recreation, Inc. ("Harvest") in October 2021.

Cost of Goods Sold

	Year Ended December 31,		Change Increase / (Decrease)	
	2021	2020	\$	%
	<i>(in thousands)</i>			
Cost of goods sold	\$ 372,255	\$ 135,116	\$ 237,139	176%
% of total revenues	40%	26%		

Cost of goods sold for the year ended December 31, 2021 was \$372.3 million, an increase of \$237.1 million, from \$135.1 million for the year ended December 31, 2020, primarily in correlation with the increase in revenues. Cost of goods sold as a percentage of revenue increased from 26% for the year ended December 31, 2020 to 40% for the year ended December 31, 2021 due to our inventory step-up related to acquisitions, increased wholesale business which is generally lower margin than retail sales, increased depreciation related to capital expenditures in cultivation and processing to support business growth and expansion into new markets which are not fully vertical, resulting in the sale of third party products, and therefore yield lower margin than the Florida vertical market.

Gross Profit

	Year Ended		Change	
	December 31,		Increase / (Decrease)	
	2021	2020	\$	%
	<i>(in thousands)</i>			
Gross profit	\$ 566,130	\$ 386,417	\$ 179,713	47%
% of total revenues	60%	74%		

Gross profit for the year ended December 31, 2021 was \$566.1 million, up \$179.7 million or 47% from \$386.4 million for the year ended December 31, 2020, as a result of an increase in retail sales due to an increase in the number of dispensaries and customer count. Gross profit as a percentage of revenue decreased from 74% for the year ended December 31, 2020 to 60%, for the year ended December 31, 2021. This decrease is caused by inventory step-up related to acquisitions, increased wholesale business, which is generally lower margin than retail sales, increased depreciation related to capital expenditures in cultivation and processing to support business growth, expansion into new markets which are not fully vertical and therefore yield lower margin than the Florida vertical market and macro-economic factors centered around prices and labor.

Sales and Marketing Expenses

	Year Ended		Change	
	December 31,		Increase / (Decrease)	
	2021	2020	\$	%
	<i>(in thousands)</i>			
Sales and marketing expenses	\$ 215,144	\$ 119,395	\$ 95,749	80%
% of total revenues	23%	23%		

Sales and marketing expenses increased from \$119.4 million for the year ended December 31, 2020, to \$215.1 million for the year ended December 31, 2021, an increase of \$95.7 million. The increase in sales and marketing is the result of a higher headcount for the year, as we continue to add additional dispensaries in efforts to maintain and further drive higher growth in sales and market share. This increased headcount resulted in higher personnel costs, which is the primary driver for the increase year over year.

General and Administrative Expenses

	Year Ended		Change	
	December 31,		Increase / (Decrease)	
	2021	2020	\$	%
	<i>(in thousands)</i>			
General and administrative expenses	\$ 100,573	\$ 36,056	\$ 64,517	179%
% of total revenues	11%	7%		

General and administrative expenses for the year ended December 31, 2021 increased to \$100.6 million from \$36.1 million for the year ended December 31, 2020, an increase of \$64.5 million. The increase in general and administrative expense is the result of significant expenses incurred to acquire and integrate new subsidiaries, most notably Harvest.

Impairment and Disposal of Long-lived Assets

	Year Ended		Change	
	December 31,		Increase / (Decrease)	
	2021	2020	\$	%
	<i>(in thousands)</i>			
Loss on impairment and disposal of long-lived assets	\$ 5,371	\$ 63	\$ 5,308	8,425%
% of total revenues	1%	0%		

Loss on impairment and disposal of long-lived assets for the year ended December 31, 2021 increased to 5.4 million from \$63 for the year ended December 31, 2020, an increase of 5.3 million. The increase is primarily due to the write off of certain licenses in our Southwest hub due to market changes and the disposal of certain long-lived assets.

Depreciation and Amortization Expenses

	Year Ended December 31,		Change Increase / (Decrease)	
	2021	2020	\$	%
	<i>(in thousands)</i>			
Depreciation and amortization expense	\$ 48,096	\$ 12,600	\$ 35,496	282%
% of total revenues	5%	2%		

Depreciation and amortization expenses for the year ended December 31, 2021 was \$48.1 million, up \$35.5 million, or 282%, from \$12.6 million for the year ended December 31, 2020. The overall increase in depreciation and amortization expenses was due to amortization of intangibles acquired and fair valued in acquisitions, investment in infrastructure that resulted in more capitalized assets from the additional dispensaries. Furthermore, depreciation expense increased due to additional finance leases added.

Total Other Income (Expense), Net

	Year Ended December 31,		Change Increase / (Decrease)	
	2021	2020	\$	%
	<i>(in thousands)</i>			
Total other expense, net	\$ 33,440	\$ 60,854	\$ (27,414)	(45)%
% of total revenues	(4)%	(12)%		

Total other income (expense), net for the year ended December 31, 2021 was \$33.4 million, a decrease of \$27.4 million or (45)%, from \$60.9 million for the year ended December 31, 2020. The overall decrease is primarily driven by \$42.7 million of other expense due to revaluation of warrants, offset by increased interest expense.

On December 10, 2020, the Company entered into a Supplemental Warrant Indenture with Odyssey Trust Company pursuant to which it amended the terms of the issued and outstanding subordinate voting share purchase warrants of the Company (the "Public Warrants") to convert the exercise price of the Public Warrants to \$13.47 per share, the U.S. dollar equivalent of the Canadian dollar exercise price of the Public Warrants of C\$17.25. As a result of this, the Public Warrants converted to equity and eliminated the necessity of revaluation expense on these warrants. The Company did acquire Canadian dollar warrants in the acquisition of Harvest and recorded income related to the revaluation of these warrants in the fourth quarter of the year ended December 31, 2021. Additionally, interest expense increased as a result of new debt to support business growth, additional finance leases and additional construction finance liabilities acquired in the Harvest acquisition.

Provision for Income Taxes

	Year Ended December 31,		Change Increase / (Decrease)	
	2021	2020	\$	%
	<i>(in thousands)</i>			
Provision for income taxes	\$ 146,061	\$ 94,451	\$ 51,610	55%
Effective tax rate	89%	60%		

Income tax expense for the year ended December 31, 2021 increased to \$146.1 million from \$94.5 million for the year ended December 31, 2020, an increase of \$51.6 million as a result of a \$179.7 million increase in gross profit for the same periods. Under IRC Section 280E, cannabis companies are only allowed to deduct expenses that are directly related to production of the products. The increase in income tax expense is due to the significant increase in gross profit as well as an increase in expenses with are not tax deductible under 280E

Net Income

	Year Ended December 31,		Change Increase / (Decrease)	
	2021	2020	\$	%
	<i>(in thousands)</i>			
Net income and comprehensive income	\$ 17,445	\$ 62,998	\$ (45,553)	(72)%

Net income for the year ended December 31, 2021 was \$17.4 million, a decrease of \$45.6 million or 72%, from \$63.0 million for the year ended December 31, 2020. The decrease in net income was driven primarily by an increase in revenue due to increased dispensary locations, expansion of wholesale business, and acquisitions. This increase in revenue was offset by increased cost of goods sold driven by inventory step-up, expansion into new markets which are not fully vertical and therefore yield lower margin than Florida, and increased depreciation related to capital expenditures in cultivation and processing. In addition, increases in sales and marketing and general and administrative expenses such significant expenses incurred to acquire and integrate new subsidiaries, most notably Harvest, increases in personnel costs, dispensary expenses, depreciation and amortization, interest expense, ramping infrastructure and go-forward compliance, all contributed to the offset in net income. Income taxes also significantly increased period over period due to higher gross profit.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue, Net of Discounts

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	\$	%
	<i>(dollars in thousands)</i>			
Revenues, net of discounts	\$ 521,533	\$ 252,819	\$ 268,714	106%

Revenue for the year ended December 31, 2020 was \$521.5 million, an increase of \$268.7 million, from \$252.8 million for the year ended December 31, 2019. Increase in revenue is primarily the result of an increase in our organic growth in retail sales due to the increase in products available for purchase and overall customer count. In addition, we opened 28 additional dispensaries for the year ended December 31, 2020, which increased retail sales year over year.

Cost of Goods Sold

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	\$	%
	<i>(dollars in thousands)</i>			
Cost of goods sold	\$ 135,116	\$ 60,982	\$ 74,134	122%
% of total revenues	26%	24%		

Cost of goods sold for the year ended December 31, 2020 was \$135.1 million, an increase of \$74.1 million, from \$61.0 million for the year ended December 31, 2019 due to increased retail sales as a result of our increase in dispensaries and customer count. Our cost of goods sold as a percentage of revenue increased from 24% for the year ended December 31, 2019 to 26% for the year ended December 31, 2020 due to the change in product mix, expansion into new markets, one-time costs associated with the implementation of SAP, and inventory flow-through.

Gross Profit

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	\$	%
	<i>(dollars in thousands)</i>			
Gross profit	\$ 386,417	\$ 191,837	\$ 194,580	101%
% of total revenues	74%	76%		

Gross profit for the year ended December 31, 2020 was \$386.4 million, an increase of \$194.6 million, from \$191.8 million for the year ended December 31, 2019. Gross profit as a percentage of revenue decreased from December 31, 2019 compared to December 31, 2020 from 76% to 74%, respectively. This decrease is caused by an increase in depreciation related to capital expenditures in cultivation and processing to support business growth, expansion into new markets, one-time costs associated with the SAP implementation, inventory flow-through and product mix.

Sales and Marketing Expenses

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	\$	%
	<i>(dollars in thousands)</i>			
Sales and marketing expenses	\$ 119,395	\$ 59,349	\$ 60,046	101%
% of total revenues	23%	23%		

Sales and marketing expenses increased from \$59.3 million for the year ended December 31, 2019, to \$119.4 million for the year ended December 31, 2020, an increase of \$60.0 million. The increase in sales and marketing is the result of a higher headcount for the year, as we continue to add additional dispensaries in efforts to maintain and further drive higher growth in sales and market share. This increased headcount resulted in higher personnel costs, which is the primary driver for the increase year over year.

General and Administrative Expenses

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	\$	%
	<i>(dollars in thousands)</i>			
General and administrative expenses	\$ 36,056	\$ 14,071	\$ 21,985	156%
% of total revenues	7%	6%		

General and administrative expenses for the year ended December 31, 2020 increased to \$36.1 million from \$14.1 million for the year ended December 31, 2019 an increase of \$22.0 million. The increase in general and administrative expense is primarily the result of entering new markets and ramping up our infrastructure to support growth initiatives and go-forward compliance.

Impairment and Disposal of Long-lived Assets

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	\$	%
	<i>(dollars in thousands)</i>			
Loss on impairment and disposal of long-lived assets	\$ 63	\$ 67	\$ (4)	(6)%
% of total revenues	0%	0%		

During the years ended December 31, 2020 and December 31, 2019 the Company had a nominal amount of disposals on property and equipment.

Depreciation and Amortization Expenses

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	\$	%
	<i>(dollars in thousands)</i>			
Depreciation and amortization expenses	\$ 12,600	\$ 5,079	\$ 7,521	148%
% of total revenues	2%	2%		

Depreciation and amortization expenses for the year ended December 31, 2020 were \$12.6 million, up \$7.5 million, or 148% from \$5.1 million for the year ended December 31, 2019. The overall increase in depreciation and amortization expenses was due to investment in infrastructure that resulted in more capitalized assets from the additional dispensaries. Furthermore, depreciation expense increased due to additional finance leases added.

Total Other Income (Expense), Net

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	\$	%
	<i>(dollars in thousands)</i>			
Total other expense	\$ 60,854	\$ 9,590	\$ 51,264	535%
% of total revenues	12%	4%		

Total other expense for the year ended December 31, 2020 was \$60.9 million, an increase of \$51.3 million or 535%, from \$9.6 million for the year ended December 31, 2019. The overall increase is the result of our revaluation of debt warrants impacted by the increases in our stock value which were originally denominated in Canadian dollars. The expense for the year ended December 31, 2020 was \$42.7 million compared to \$0.8 million for the year ended December 31, 2019.

On December 10, 2020, the Company entered into a Supplemental Warrant Indenture with Odyssey Trust Company pursuant to which it amended the terms of the issued and outstanding subordinate voting share purchase warrants of the Company (the “Public Warrants”) to convert the exercise price of the Public Warrants to \$13.47 per share, the U.S. dollar equivalent of the Canadian dollar exercise price of the Public Warrants of C\$17.25. As a result of this, the Public Warrants converted to equity and eliminated the necessity of revaluation expense in future periods. Additionally, interest expense increased as a result of the addition of finance leases to support business growth, for the year ended December 31, 2020.

Provision for Income Taxes

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	\$	%
	<i>(dollars in thousands)</i>			
Provision for income taxes	\$ 94,451	\$ 50,586	\$ 43,865	87%
Effective tax rate	60%	49%		

Income tax expense for the year ended December 31, 2020 increased to \$94.5 million from \$50.6 million for the year ended December 31, 2019, an increase of \$43.9 million as a result of a \$194.6 million increase in gross profit for the same periods. Under IRC Section 280E, cannabis companies are only allowed to deduct expenses that are directly related to production of the products. The increase in income tax expense is due to the significant increase in gross profit as a result of the increase in retail sales partially offset by increase in production costs as a percentage of revenue.

Net Income and Comprehensive Income

	Year Ended December 31,		Change Increase / (Decrease)	
	2020	2019	\$	%
	<i>(dollars in thousands)</i>			
Net income and comprehensive income	\$ 62,998	\$ 53,095	\$ 9,903	19%

Net income for the year ended December 31, 2020 was \$63.0 million, an increase of \$9.9 million, or 19%, from \$53.1 million for the year ended December 31, 2019. The increase in net income was driven primarily by an increase in retail sales as a result of opening twenty-eight additional dispensaries in Florida during the year ended December 31, 2020. This net increase to net income was offset by gross profit which was driven by increased depreciation related to capital expenditures in cultivation and processing, expansion into new markets, one-time costs associated with the SAP implementation, inventory flow-through and product mix. In addition, increases in sales and marketing and general and administrative expenses such as personnel costs, dispensary expenses, depreciation, interest expense, costs of entering new markets, ramping up infrastructure and go-forward compliance, all contributed to the offset in net income. Income taxes also significantly increased period over period due to higher profit. Lastly, other expense increased as a result of the revaluation of our debt warrants for the year ended December 31, 2020.

Liquidity and Capital Resources

Sources of Liquidity

Since our inception, we have funded our operations and capital spending through cash flows from product sales, loans from affiliates and entities controlled by our affiliates, third-party debt and proceeds from the sale of our capital stock. We are generating

cash from sales and are deploying our capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term to support our business growth and expansion. Our current, principal sources of liquidity are our cash and cash equivalents provided by our operations and debt and equity offerings. Cash and cash equivalents consist primarily of cash on deposit with banks and money market funds. Cash and cash equivalents were \$230.6 million and \$146.7 million as of December 31, 2021 and 2020, respectively.

We believe our existing cash balances will be sufficient to meet our anticipated cash requirements from the date of this Annual Report on Form 10-K through at least the next 12 months.

Our primary uses of cash are for working capital requirements, capital expenditures and debt service payments. Additionally, from time to time, we may use capital for acquisitions and other investing and financing activities. Working capital is used principally for our personnel as well as costs related to the growth, manufacture and production of our products. Our capital expenditures consist primarily of additional facilities and dispensaries, improvements in existing facilities and product development.

To the extent additional funds are necessary to meet our long-term liquidity needs as we continue to execute our business strategy, we anticipate that they will be obtained through incurrence of additional indebtedness, additional equity financings or a combination of these potential sources of funds. There can be no assurance that we will be able to obtain additional funds on terms acceptable to us, on a timely basis or at all. The failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on the results of operations, and financial condition.

The following table presents our cash and outstanding debt as of the dates indicated:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	<i>(in thousands)</i>	
Cash and cash equivalents	\$ 230,646	\$ 146,713
Outstanding debt and warrant liabilities		
Notes payable	16,600	6,000
Notes payable - related party	—	12,011
Private placement notes	462,929	117,165
Warrant liabilities	2,895	—
Operating lease liabilities	131,970	31,397
Finance lease liabilities	71,429	38,935
Construction finance liabilities	176,189	82,047
Total debt and warrant liabilities	<u>\$ 862,012</u>	<u>\$ 287,555</u>

Cash Flows

The table below highlights our cash flows for the periods indicated.

	2021	Year Ended December 31, 2020	2019
	<i>(in thousands)</i>		
Net cash provided by operating activities	\$ 12,898	\$ 99,643	\$ 19,073
Net cash used in investing activities	(215,184)	(174,654)	(94,672)
Net cash provided by financing activities	289,232	129,911	142,982
Net increase in cash and cash equivalents	86,946	54,900	67,383
Cash, cash equivalents, and restricted cash, beginning of year	146,713	91,813	24,430
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 233,659</u>	<u>\$ 146,713</u>	<u>\$ 91,813</u>

Cash Flow from Operating Activities

Net cash provided by operating activities was \$12.9 million for the year ended December 31, 2021, a decrease of \$86.7 million, compared to \$99.6 million net cash provided by operating activities during the year ended December 31, 2020. This is primarily due to acquisitions, most notably Harvest, and the resulting integration and transaction costs as well as the inventory step-up and increased depreciation and amortization expenses

Net cash provided by operating activities was \$99.6 million for the year ended December 31, 2020, an increase of \$80.6 million, compared to \$19.1 million net cash provided by operating activities during the year ended December 31, 2019. This is primarily due to organic growth of our business partially offset by net working capital including inventory, as we ramp the business to support the growth.

Cash Flow from Investing Activities

Net cash used in investing activities was \$215.2 million for the year ended December 31, 2021, an increase of \$40.5 million, compared to the \$174.7 million net cash used in investing activities for the year ended December 31, 2020. The increase is due to the increase of property and equipment purchases for the construction of additional dispensaries and continued expansion of our cultivation and processing facilities. This increase is offset by the sale of the Florida license that occurred simultaneously with the acquisition of Harvest as well as the cash acquired through the Harvest acquisition.

Net cash used in investing activities was \$174.7 million for the year ended December 31, 2020, an increase of \$80.0 million, compared to the \$94.7 million net cash used in investing activities for the year ended December 31, 2019. The increase is due to an acquisition in 2020 and the increase of property and equipment purchases for the construction of additional dispensaries and continued expansion of our cultivation and processing facilities during the year ended December 31, 2020.

Cash Flow from Financing Activities

Net cash provided by financing activities was \$289.2 million for the year ended December 31, 2021, an increase of \$159.3 million, compared to the \$129.9 million net cash provided by financing activities for the year ended December 31, 2020. The increase was primarily related to proceeds from private placement notes and proceeds from the private placement issuance of shares offset by payments on notes that occurred for the year ended December 31, 2021.

Net cash provided by financing activities was \$129.9 million for the year ended December 31, 2020, a decrease of \$13.1 million, compared to the \$143.0 million net cash provided by financing activities for the year ended December 31, 2019. The increase was primarily related to \$83.2 million of proceeds for the issuance of shares offering that occurred for the year ended December 31, 2020. The increase was partially offset by the \$122.2 million in net proceeds received from the debt issuance in 2019.

Funding Sources

Finance Liability, "June Warrants" and "November Warrants"

On June 18, 2019, we completed an offering using our Canadian prospectus of 70,000 units (the "June Units"), comprised of an aggregate principal amount of US\$70.0 million of 9.75% senior secured notes maturing in 2024 (the "June Notes") and an aggregate amount of 1,470,000 subordinate voting share warrants (each individual warrant being a "June Warrant") at a price of US\$980 per June Unit for gross proceeds of US\$68.6 million. Each June Unit was comprised of one June Note issued in denominations of \$1,000 and 21 June Warrants.

On November 7, 2019, we completed an offering using our Canadian prospectus of 60,000 units (the "November Units"), comprised of an aggregate principal amount of US\$60.0 million of 9.75% senior secured notes maturing in 2024 (the "November Notes") and an aggregate amount of 1,560,000 subordinate voting share warrants (each individual warrant being a "November Warrant") at a price of US\$980 per November Unit for a gross proceeds of US\$61.1 million. Each November Unit was comprised of one November Note issued in denominations of \$1,000 and 26 November Warrants.

Secured Promissory Notes

On October 6, 2021, the Company closed on a private placement of 8% Senior Secured Notes (the "Notes") for aggregate gross proceeds of \$350.0 million and net proceeds of \$342.6 million. The Notes were issued at 100% face value, bear an interest rate of 8% per annum payable semi-annually in equal installments until the maturity date, unless earlier redeemed or repurchased. The Notes mature on October 6, 2026 and may be redeemed in whole or in part, at any time from time to time, on or after October 6, 2023 at the applicable redemption price set forth in the trust indenture dated as of June 18, 2019 (the "Base Indenture"), as supplemented by a supplemental trust indenture dated as of October 6, 2021 (the "Supplemental Indenture" and, the Base Indenture as supplemented by the Supplemental Indenture, the "Indenture"), by and between the Company and Odyssey Trust Company, as trustee. The Company used a portion of the net proceeds to redeem certain outstanding indebtedness of Harvest, and intends to use the remaining net proceeds for capital expenditures and other general corporate purposes. The Indenture governing the Notes contains covenants that, among other things, limit the ability of the Company and its restricted subsidiaries to, among other things, declare or pay dividends or make certain other payments; purchase, redeem or otherwise acquire or retire for value any equity interests or otherwise make any restricted payments; conduct certain asset sales or consolidate, merge or transfer all or substantially all of the assets of the Company and its subsidiaries on a consolidated basis; make certain restricted investments, incur certain indebtedness or grant certain liens, or enter into certain affiliate transactions. These covenants are subject to a number of other limitations and exceptions as set forth in the Indenture.

Unsecured Promissory Notes

On April 10, 2017, we entered into an unsecured promissory note with a 12% annual interest rate, which was amended in January 2019 to extend the maturity by three years to 2022, with a balance as of December 31, 2019 of \$4.0 million. On December 17, 2017, we entered into a promissory note dated December 7, 2017, with a 12% annual interest rate and a balance as of December 31, 2019 of \$2.0 million. Each promissory note is due in 2022. The promissory notes were repaid in full during the year ended December 31, 2021.

Related Party Promissory Notes

In May 2018, the Company entered into two separate unsecured promissory notes (the “Traunch Four Note” and the “Rivers Note”) for a total of \$12.0 million. The Traunch Four Note was held by Traunch Four, LLC, an entity whose direct and indirect owners included Kim Rivers, the Chief Executive Officer and Chair of the Board, as well as Thad Beshears, Richard May, George Hackney, all of whom are directors of Trulieve, and certain of Richard May’s family members. The Rivers Note was held by Kim Rivers. Each promissory note had a 24-month maturity and 12% annual interest rate. The two unsecured promissory notes were repaid in November 2021.

In February 2019, the Company entered into a 24-month unsecured loan with an 8% annual interest rate with Benjamin Atkins, a former director and shareholder for \$0.3 million. The loan was issued in March 2019. The Company determined that the stated interest rate was below market rates and recorded an insignificant debt discount using an annual discount interest rate of 12%.

Balance Sheet Exposure

At December 31, 2021 and 2020, 100% of our balance sheet is exposed to U.S. cannabis-related activities. We believe our operations are in material compliance with all applicable state and local laws, regulations and licensing requirements in the states in which we operate. However, cannabis remains illegal under U.S. federal law. Substantially all our revenue is derived from U.S. cannabis operations. For information about risks related to U.S. cannabis operations, please refer to the “Risk Factors” section of this Annual Report on Form 10-K.

Contractual Obligations

At December 31, 2021, we had the following contractual obligations to make future payments, representing contracts and other commitments that are known and committed:

	<1 Year	1 to 3 Years	3 to 5 Years	>5 Years	Total
	<i>(in thousands)</i>				
Accounts payable and accrued liabilities	\$ 94,073	\$ —	\$ —	\$ —	\$ 94,073
Notes payable	10,144	5,376	19	1,061	16,600
Private placement notes	—	130,000	350,000	—	480,000
Operating lease liabilities	21,826	42,267	40,510	110,758	215,361
Finance lease liabilities	12,102	26,281	21,234	42,311	101,928
Construction finance liabilities	22,463	47,143	48,771	427,747	546,124
Total	\$ 160,608	\$ 251,067	\$ 460,534	\$ 581,877	\$ 1,454,086

For additional information on our commitments for financing arrangements, future lease payments and other obligations, see Item 8, Note 10. *Notes Payable*, Note 12. *Private Placement Notes*, Note 13. *Leases*, Note 14. *Construction Finance Liabilities*, and Note 20. *Commitments and Contingencies*, for additional information.

Critical accounting policies and estimates

Critical accounting estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates, and revisions to accounting estimates are recognized in the period in which the estimate is revised.

Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Inventory

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, what we expect 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.

Estimated Useful Lives and Depreciation and Amortization of Property and Equipment and Intangible Assets

Depreciation and amortization of property and equipment and intangible assets are 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.

Accounting for Acquisitions and Business Combinations

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition.

In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Management exercises judgement in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value. 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.

Cannabis licenses are the primary intangible asset acquired in business combinations as they provide the Company the ability to operate in each market. However, some cannabis licenses are subject to renewal and therefore there is some risk of non-renewal for several reasons, including operational, regulatory, legal or economic. To appropriately consider the risk of non-renewal, the Company applies probability weighting to the expected future net cash flows in calculating the fair value of these intangible assets. The key assumptions used in these cash flow projections include discount rates and terminal growth rates. Of the key assumptions used, the impact of the estimated fair value of the intangible assets have the greatest sensitivity to the estimated discount rate used in the valuation. The terminal growth rate represents the rate at which these businesses will continue to grow into perpetuity. Other significant assumptions include revenue, gross profit, operating expenses and anticipated capital expenditures which are based upon the Corporation's historical operations along with management projections.

The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are determined based on enacted tax rates and laws for the years in which the differences are expected to reverse. 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. As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production.

The Company recognizes uncertain income tax positions at the largest amount that is more-likely-than-not to be sustained upon examination by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Recognition or measurement is reflected in the period in which the likelihood changes.

Impairment Assessments

Impairment assessment estimates applies to goodwill, long-lived assets, and right-of-use assets.

Goodwill is allocated at the date the goodwill is initially recorded. We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicates the carrying value may not be recoverable. We review our long-lived assets, such as property and equipment, intangible assets, and right-of-use assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Significant judgment and estimates are required when determining the fair value of these assets for impairment tests.

Share-Based Payment Arrangements

We use the Black-Scholes pricing model to determine the fair value of options and warrants granted to employees and directors under share-based payment arrangements, where appropriate. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of units, volatility of future share price, risk free rates, and future dividend yields at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Commitments and Contingencies

From time to time, the Company may be involved in litigation relating to claims arising 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 contingencies. 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.

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 statements on a recurring basis. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order 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. 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.

Critical accounting policies

Inventory

Our inventories primarily consist of raw materials, internally-produced work in process, and finished goods and packaging materials. Costs incurred during the growing and production process are capitalized as incurred to the extent that cost is less than net realizable value. The costs include materials, labor and manufacturing overhead used in the growing and production processes. Pre-harvest costs are capitalized. Our inventory of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value.

Leases

ASC Topic 842 is a standard that requires lessees to increase transparency and comparability among organization by requiring the recognition of Right of Use Assets "ROU" assets and lease liabilities on the balance sheet. The requirements of this standard include a significant increase in required disclosures to meet the objectives of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The new standard was effective beginning January 1, 2019 and the standard was adopted using the modified retrospective transition approach, which allows us to recognize a cumulative effect adjustment to the opening balance of accumulated deficit in the period of adoption rather than restate comparative prior year periods.

Revenue Recognition

We recognize revenue in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Through our application of the standard, we recognize revenue to depict the transfer of promised goods to our customers in an amount that reflects the consideration of which we expect to be entitled to in exchange for those goods. We contract with our customers for the sale of dried cannabis, cannabis oil and other cannabis related products that consist of multiple performance obligations. Revenue from the direct sale of cannabis to customers for a fixed price is recognized when we transfer control of the goods to the customer at the point of sale and the customer has paid for the goods.

Share Based Compensation

We account for share-based compensation expense in accordance with FASB ASC 718 Compensation – Stock Compensation, which requires the measurement and recognition of share-based compensation expense based on estimated fair values, for all stock based payment awards made to employees. We measure the share-based payment awards based on its estimated fair value of the awards using the Black-Scholes option pricing model, and the fair value of the Company's common stock on the date of grant, for the warrants and options. We measure the share-based payment awards based on its estimated fair value of the awards using the Black-Scholes option pricing model for warrants and options, and the fair value of the Company's common stock on the date of grant for restricted stock awards ("RSUs").

Off-Balance Sheet Arrangements

As of the date of this Annual Report on Form 10-K, we do 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, including, and without limitation, such considerations as liquidity and capital resources.

Management's Use of Non-GAAP Measures

Our management uses financial measures that are not in accordance with generally accepted accounting principles in the U.S., or GAAP, in addition to financial measures in accordance with GAAP to evaluate our operating results. These non-GAAP financial measures should be considered supplemental to, and not a substitute for, our reported financial results prepared in accordance with GAAP. Adjusted EBITDA is a financial measure that is not defined under GAAP. Our management uses this non-GAAP financial measure and believes it enhances an investor's understanding of our financial and operating performance from period to period because it excludes certain material non-cash items and certain other adjustments management believes are not reflective of our ongoing operations and performance. Adjusted EBITDA excludes from net income as reported interest, provision for income taxes, depreciation and amortization to arrive at EBITDA. This is then adjusted for items that do not represent the operations of the core business such as inventory step-up for fair value adjustments in purchase accounting, integration and transition costs, acquisition and transaction costs, other non-recurring costs, expenses related to the COVID-19 pandemic, impairments and disposals of long-lived assets, the results of entities consolidated as VIEs but not legally controlled and operated by the Company, and other income and expense items. Integration and transition costs include those costs related to integration of acquired entities and to transition major systems or processes. Acquisition and transaction costs relate to specific transactions such as acquisitions whether contemplated or completed and regulatory filings and costs related to equity and debt issuances. Other non-recurring costs includes miscellaneous items which are not expected to reoccur frequently such as inventory adjustments related to specific issues and unusual litigation. During the year ended December 31, 2021, the Company adjusted the definition of Adjusted EBITDA to include expenses incurred as a result of the COVID-19 pandemic. Adjusted EBITDA for the year ended December 31, 2020 has been adjusted to reflect this current definition. Additionally, certain reclassifications have been made to Adjusted EBITDA for prior periods to conform to the current period presentation.

Trulieve reports Adjusted EBITDA to help investors assess the operating performance of the Company's business. The financial measures noted above are metrics that have been adjusted from the GAAP net income measure in an effort to provide readers with a normalized metric in making comparisons more meaningful across the cannabis industry, as well as to remove non-recurring, irregular and one-time items that may otherwise distort the GAAP net income measure.

As noted above, our Adjusted EBITDA is not prepared in accordance with GAAP, and should not be considered in isolation of, or as an alternative to, measures prepared in accordance with GAAP. There are a number of limitations related to the use of Adjusted EBITDA rather than net income, which is the most directly comparable financial measure calculated and presented in accordance with GAAP. Because of these limitations, we consider, and you should consider, Adjusted EBITDA together with other operating and financial performance measures presented in accordance with GAAP. A reconciliation of Adjusted EBITDA from net income, the most directly comparable financial measure calculated in accordance with GAAP, has been included herein immediately following our discussion of "Adjusted EBITDA".

Adjusted EBITDA

	Year Ended December 31,		Change Increase / (Decrease)	
	2021	2020	\$	%
	<i>(in thousands)</i>			
Adjusted EBITDA	\$ 384,581	\$ 260,077	\$ 124,504	48%

Adjusted EBITDA for the year ended December 31, 2021, was \$384.6 million, an increase of \$124.5 million or 48%, from \$260.1 million for the year ended December 31, 2020. The following table presents a reconciliation of GAAP net income (loss) to non-GAAP Adjusted EBITDA, for each of the periods presented:

	Year Ended December 31,		
	2021	2020	2019
	<i>(in thousands)</i>		
Net income and comprehensive income attributable to common shareholders	\$ 18,032	\$ 62,998	\$ 53,095
Add (deduct) impact of:			
Interest expense	34,787	20,237	9,050
Provision for income taxes	146,061	94,451	50,586
Depreciation and amortization	48,096	12,600	5,079
Depreciation included in cost of goods sold	24,073	11,542	7,992
EBITDA	271,049	201,828	125,802
Inventory step up, fair value	41,189	955	—
Integration and transition costs	25,601	—	—
Acquisition and transaction costs	15,831	4,724	—
Share-based compensation and related premiums	13,444	2,765	—
Other non-recurring expenses	6,797	—	—
COVID related expenses	6,188	9,125	—
Loss on impairment and disposal of long-lived assets	5,371	63	67
Results of entities not legally controlled	458	—	—
Other expense (income), net	(1,139)	(2,062)	(266)
Change in fair value of derivative liabilities - warrants	(208)	42,679	806
Total adjustments	113,532	58,249	607
Adjusted EBITDA	\$ 384,581	\$ 260,077	\$ 126,409

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk

Strategic and operational risks arise if we fail to carry out business operations and/or to raise sufficient equity and/or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

Currency Risk

Our operating results and financial position are reported in U.S. dollars. Some of our financial transactions are denominated in currencies other than the U.S. dollar. The results of operations are subject to currency transaction risks.

We have no hedging agreements in place with respect to foreign exchange rates. We have not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Credit Risk

Management does not believe that the Company has credit risk related to its customers, as the Company's revenue is generated primarily through cash transactions. The Company deals almost entirely with on demand sales and does not have any material wholesale agreements as of December 31, 2021. Concentrations of credit risk with respect to our cash and cash equivalents are limited primarily to amounts held with financial institutions.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet its financial obligations associated with financial liabilities. We manage liquidity risk through the management of its capital structure. Our approach to managing liquidity is to ensure that we will have sufficient liquidity to settle obligations and liabilities when due.

Asset forfeiture risk

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either 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 were 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.

Interest Rate Risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. As of December 31, 2021, our cash balances consisted of bank deposits and a money market fund. Our private placement debt (aggregate amount of \$480 million) and long-term debt (aggregate amount of \$16.6 million) bears interest at fixed rates. As of December 31, 2021, we also have lease obligations and construction finance liabilities of \$203.4 million and \$176.2 million, respectively. Interest rates on existing leases and construction finance liabilities typically do not change unless there is a modification to an underlying agreement. Changes in market interest rates impact the fair value of our derivative liabilities of which the balance is \$2.9 million as of December 31, 2021, the term of which expires in April 2023, and as such there is no significant interest rate exposure for the derivative liabilities. Therefore exposure to market risk for changes in interest rates is limited.

See Item 7, *Liquidity and Capital Resources*, for additional information.

Concentration Risk

Our operations are substantially located in Florida and to a lesser extent Arizona and Pennsylvania. Should economic conditions deteriorate within that region, our results of operations and financial position would be negatively impacted.

General Economic Risk

Our operations could be affected by the economic context should the unemployment level, interest rates or inflation reach levels that influence consumer trends and spending and, consequently, impact our sales and profitability.

Banking Risk

Notwithstanding that a majority of states have legalized medical marijuana, 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 marijuana 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 marijuana industry. Consequently, businesses involved in the marijuana 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 Trulieve, its subsidiaries and investee companies, and leaves their cash holdings vulnerable. We have banking relationships in all jurisdictions in which we operate.

Financial Instruments and Financial Risk Management

We are exposed in varying degrees to a variety of financial instrument related risks. The board of directors of Trulieve mitigate these risks by assessing, monitoring and approving the risk management processes.

The Company's financial instruments that are measured at fair value on a recurring basis consist of money market funds and a warrant liability. Our financial instruments whose carrying value approximates the fair value include cash, accounts payable and accrued liabilities, notes payable, notes payable related party, operating lease liability, finance lease liability, other long-term liabilities and construction finance liability. Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

- Level 1: Observable inputs based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs for which there is little or no market data requiring the Company to develop its own assumptions.