Item 8. Financial Statements and Supplementary Data

DAVIDSON & COMPANY LLP Chartered Professional Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
Vireo Health International, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Vireo Health International, Inc. (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of net loss and comprehensive loss, equity, and cash flows for the years ended December 31, 2020 and 2019, and the related notes (collectively referred to as the "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 2019, and the results of its operations and its cash flows for each of the 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 Company'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 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 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 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.

We have served as the Company's auditor since 2018.

/s/ Davidson & Company LLP

Vancouver, Canada Chartered Professional Accountants

March 31, 2021

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VIREO HEALTH INTERNATIONAL, INC.
Consolidated Balance Sheets (In U.S Dollars)

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash	$ 25,513,180	$ 7,641,673
Restricted cash	1,592,500	1,592,500
Accounts receivable, net of allowance for doubtful accounts of $132,490 and $278,309, respectively	696,994	1,025,963
Inventory	12,644,895	14,671,576
Prepayments and other current assets	1,552,278	2,285,548
Notes receivable, current	293,700	-
Deferred acquisition costs	28,136	28,136
Assets Held for Sale	4,596,445	-
Deferred financing costs	120,266	-
Total current assets	47,038,394	27,245,396
Property and equipment, net	30,566,259	34,544,127
Operating lease, right-of-use asset	8,163,844	7,306,820
Notes receivable, long-term	3,750,000	-
Intangible assets, net	8,409,419	9,001,237
Goodwill	3,132,491	3,132,491
Deposits	1,412,124	2,651,366
Deferred Loss on Sale Leaseback	-	30,481
Deferred tax assets	157,000	1,520,000
Total assets	$ 102,629,531	$ 85,431,918
Liabilities		
Current liabilities		
Accounts Payable and Accrued liabilities	13,477,303	3,137,086
Right of use liability	857,294	619,827
Convertible notes, net of issuance costs	900,000	-
Long-Term debt, current portion	1,110,000	-
Liabilities held for sale	3,595,301	-
Total current liabilities	19,939,898	3,756,913
Right-of-use liability	20,343,063	30,929,230
Convertible notes, net of issuance costs	-	950,001
Long-Term debt	-	1,110,000
Total liabilities	$ 40,282,961	$ 36,746,144
Commitments and contingencies (refer to Note 20)		
Stockholders’ equity		
Subordinate Voting Shares ($- par value, unlimited shares authorized; 51,062,559 shares issued and outstanding)	-	-
Multiple Voting Shares ($- par value, unlimited shares authorized; 554,128 shares issued and outstanding)	-	-
Super Voting Shares ($- par value; unlimited shares authorized; 65,411 shares issued and outstanding, respectively)	-	-
Additional Paid in Capital	164,079,614	127,476,624
Accumulated deficit	(101,733,044)	(78,790,850)
Total stockholders' equity	$ 62,346,570	$ 48,685,774
Total liabilities and stockholders' equity	$ 102,629,531	$ 85,431,918

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

VIREO HEALTH INTERNATIONAL, INC.
Consolidated Statements of Net Loss and Comprehensive Loss (In U.S. Dollars)

	2020	2019
Revenue	$ 49,211,329	$ 29,956,172
Cost of sales		
Product costs	31,109,224	21,754,487
Inventory valuation adjustments	974,384	865,405
Gross profit	17,127,721	7,336,280
Operating expenses:		
Selling, general and administrative	26,365,182	25,045,229
Stock-based compensation expenses	12,777,474	3,303,297
Depreciation	413,092	491,170
Amortization	615,095	864,230
Total operating expenses	40,170,843	29,703,926
Loss from operations	(23,043,122)	(22,367,646)
Other income (expense):		
Impairment of Intangible assets and goodwill	-	(28,264,850)
Loss on sale of property and equipment	(13,800)	-
Gain (Loss) on disposal of assets held for sale	20,253,177	-
Derivative loss	(6,260,480)	-
Interest expenses, net	(5,095,848)	(4,460,331)
Other income (expenses)	7,879	(1,800,485)
Other income (expenses), net	8,890,928	(34,525,666)
Loss before income taxes	(14,152,194)	(56,893,312)
Current income tax expenses	(7,427,000)	(2,231,000)
Deferred income tax recoveries (expense)	(1,363,000)	1,645,000
Net loss and comprehensive loss	(22,942,194)	(57,479,312)
Net loss per share - basic and diluted	$ (0.24)	$ (0.71)
Weighted average shares used in computation of net loss per share - basic and diluted	97,551,146	80,822,129

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

VIREO HEALTH INTERNATIONAL, INC.
Consolidated Statements of Stockholders' Equity
(in thousands of United States dollars)

	Common Stock																
	Series A		Series B		Series C		Series D		SVS		MVS		Super Voting Shares				
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Stockholders' Equity
Balance, January 1, 2019	21,663,494	$ -	10,261,655	$ -	22,772,744	$ -	11,500,855	$ -	-	$ -	-	$ -	-	$ -	$ 48,956,606	$ (21,626,632)	$ 27,329,974
Exchange of shares on RTO transaction	(21,663,494)	-	(10,261,655)	-	(22,772,744)	-	(11,500,855)	-	8,217,695	-	514,388	-	65,411	-	-	-	-
Shares issued on RTO transaction	-	-	-	-	-	-	-	-	705,879	-	-	-	-	-	2,999,986	-	2,999,986
Re capitalization costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,994,606)	-	(2,994,606)
Shares issued in provate placement	-	-	-	-	-	-	-	-	12,090,937	-	-	-	-	-	47,764,958	-	47,764,958
Cumulative adjustment transition to ASC 842	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	315,094	315,094
Conversion of MVS shares to SVS shares	-	-	-	-	-	-	-	-	2,669,900	-	(26,699)	-	-	-	-	-	-
Acquisition of Mayflower Botanicals	-	-	-	-	-	-	-	-	-	-	37,047	-	-	-	15,996,524	-	15,996,524
Acquisition of AZ entities	-	-	-	-	-	-	-	-	-	-	16,806	-	-	-	7,594,463	-	7,594,463
Acquisition of Silver Fox assets	-	-	-	-	-	-	-	-	-	-	6,721	-	-	-	3,130,306	-	3,130,306
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,303,297	-	3,303,297
Shares issued on conversion of debt	-	-	-	-	-	-	-	-	-	-	1,665	-	-	-	725,090	-	725,090
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(57,479,312)	(57,479,312)
Balance, January 1, 2020	-	-	-	-	-	-	-	-	23,684,411	-	549,928	-	65,411	-	$ 127,476,624	$ (78,790,850)	$ 48,685,774
Shares issued in private placement	-	-	-	-	-	-	-	-	13,651,574	-	-	-	-	-	4,058,460	-	4,058,460
Exercise of Warrants	-	-	-	-	-	-	-	-	13,651,574	-	-	-	-	-	19,673,006	-	19,673,006
Exercise of Options	-	-	-	-	-	-	-	-	-	-	4,200	-	-	-	79,800	-	79,800
Exercise of Options	-	-	-	-	-	-	-	-	75,000	-	-	-	-	-	14,250	-	14,250
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,777,474	-	12,777,474
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(22,942,194)	(22,942,194)
Balance at December 31, 2020	-	$ -	-	$ -	-	$ -	$ -	$ -	51,062,559	$ -	554,128	$ -	65,411	$ -	$ 164,079,614	$(101,733,044)	$ 62,346,570

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

VIREO HEALTH INTERNATIONAL, INC.
Consolidated Statements of Cash Flows
(in United States dollars, except for per share data)

	Year ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (22,942,194)	$ (57,479,312)
Adjustments to reconcile net loss to net cash used in operating activities:		
Inventory valuation adjustments	974,384	865,405
Depreciation	413,092	491,170
Depreciation capitalized into inventory	2,067,991	1,755,809
Non-cash operating lease expense	1,243,047	877,514
Amortization of intangible assets	615,095	864,230
Share-based payments	12,777,474	3,303,297
Impairment of goodwill	-	8,538,414
Impairment of intangible assets	-	19,726,436
Gain/loss	-	19,330
Deferred income tax	1,363,000	(1,645,000)
Deferred Gain/Loss Sale Leaseback	30,481	-
Accrued interest		9,861
Acquisition costs	-	739,880
Accretion	544,492	501,540
Loss on Sale of Property and Equipment	13,800	-
Derivative Loss	6,260,480	-
Loss on disposal of business HG	272,723	-
Gain on disposal of PDS	(3,402,794)	-
Gain on disposal of business MWH	(7,038)	-
Gain on disposal of business PAMS	(17,116,068)	-
Change in operating assets and liabilities:		
Accounts Receivable	(396,974)	1,478,191
Prepaid expenses	462,083	(1,315,536)
Inventory	(2,661,090)	(6,834,419)
Accounts payable and accrued liabilities	8,680,476	421,346
Deferred acquisition costs	-	775,000
Change in assets and liabilities held for sale	(124,843)	-
Net cash used in operating activities	$ (10,932,383)	$ (26,906,844)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of PPE	$ -	1,000,257
PP&E Additions	(8,449,097)	(7,690,753)
Proceeds from sale of PAMS net of cash	16,408,411	-
Proceeds from sale of HG net of cash	(17,945)	-
Proceeds from sale of PDS net of cash	4,745,294	-
Acquisition of High Gardens	-	(250,000)
Acquisition of Silver Fox	-	(1,924,305)
Acquisition of Mayflower	-	(1,045,207)
Acquisition of XAAS Agro	-	(918,501)
Acquisition of Midwest Hemp	-	(12,229)
Acquisition of Elephant Head	-	(10,159,493)
Deposits	249,008	(214,470)
Net cash provided by (used in) investing activities	$ 12,935,671	$ (21,214,701)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	$ 7,613,490	$ 48,213,438
Deferred financing costs	(120,266)	-
Proceeds from long-term debt	-	100,000
Proceeds from warrant exercises	9,857,498	-
Proceeds from option exercises	94,050	-
Lease principal payments	(1,576,553)	(581,830)
Net cash provided by financing activities	$ 15,868,219	$ 47,731,608
Net change in cash and restricted cash	$ 17,871,507	$ (389,937)
Cash and restricted cash, beginning of year	$ 9,234,173	$ 9,624,110
Cash and restricted cash, end of year	$ 27,105,680	$ 9,234,173

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

VIREO HEALTH INTERNATIONAL, INC.
Notes to Consolidated Financial Statements

1. Description of Business and Summary

Vireo Health International Inc. ("**Vireo**" or the "**Company**") (formerly, Darien Business Development Corp.) was incorporated under the Alberta Business Corporations Act on November 23, 2004. On March 18, 2019, the Company completed a Reverse Takeover Transaction ("**RTO**") with Vireo Health Inc. ("**Vireo U.S.**"), whereby the Company acquired Vireo U.S. and the shareholders of Vireo U.S. became the controlling shareholders of the Company (*Note 3*). Following the RTO, the Company is listed on the Canadian Securities Exchange (the "**CSE**") under ticker symbol "VREO".

Vireo is a physician-led, science-focused organization that cultivates and manufactures pharmaceutical-grade cannabis and cannabis extracts. Vireo operates cannabis cultivation, production, and dispensary facilities in Arizona, Maryland, Minnesota, New Mexico, New York, and Ohio through its subsidiaries.

While marijuana and CBD-infused products are legal under the laws of several U.S. states (with vastly differing restrictions), the United States Federal Controlled Substances Act classifies all "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. Recently some federal officials have attempted to distinguish between medical cannabis use as necessary, but recreational use as "still a violation of federal law." At the present time, the distinction between "medical marijuana" and "recreational marijuana" does not exist under U.S. federal law.

Since being declared a global pandemic on March 11, 2020, the spread of COVID-19 has severely impacted many local economies around the globe. Due to COVID-19, governments have imposed restrictions on travel and business operations, temporarily closed businesses, and implemented quarantines and shelter-in-place orders. Consequently, the COVID-19 pandemic has negatively impacted global economic activity, caused significant volatility and disruption in global financial markets, and generally introduced significant uncertainty and unpredictability throughout the world. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. Although our business has been deemed essential and/or we have been permitted to continue operating our facilities in the states in which we cultivate, process, and sell cannabis during the pendency of the COVID-19 pandemic, there is no assurance that our operations will continue to be deemed essential and/or will continue to be permitted to operate. We may incur expenses or delays relating to such events outside of our control, which could have a material, adverse effect on our business, operating results, financial condition and the trading price of our Subordinate Voting Shares. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

2. Summary of Significant Accounting Policies

Basis of presentation and going concern

The accompanying financial statements reflect the accounts of the Company. The consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States ("**GAAP**") and pursuant to the rules and regulations of the United States Securities and Exchange Commission ("**SEC**").

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. The Company's ability to continue as a going concern is dependent upon obtaining additional financing to meet anticipated cash needs for working capital and capital expenditures through the next twelve months.

For the year ended December 31, 2020, the Company reported a net loss of $22,942,194 and a net loss of $57,479,312 for the year ended December 31, 2019.

For the years ended December 31, 2020 and 2019, the Company had negative cash flows used in operating activities of $10,932,383 and $26,906,844, respectively.

As of December 31, 2020 and 2019, the Company had working capital of $27,098,496 and $23,488,483 respectively, reflecting an increase in cash of $17,871,507 for the year ended December 31, 2020.

Current management forecasts and related assumptions support the view that the Company can adequately manage the operational needs of the business.

These management forecasts and assumptions support the Company’s ability to meet its contractual obligations such as payment of interest on the 5% convertible notes of $45,000, payment of interest on the additional financings, and the Company’s lease commitments of $5,014,048.

These financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the Company’s financial position and results of operations.

Basis of consolidation

These financial statements include the accounts of the following entities wholly owned, or effectively controlled by the Company as of December 31, 2020:

Name of entity	**Place of incorporation**
Vireo Health International, Inc.	British Columbia, CAN
Vireo Health, Inc.	Delaware, USA
Vireo Health of New York, LLC	New York, USA
Minnesota Medical Solutions, LLC	Minnesota, USA
Ohio Medical Solutions, Inc.	Delaware, USA
MaryMed, LLC	Maryland, USA
1776 Hemp, LLC	Delaware, USA
Vireo Health of Massachusetts, LLC	Delaware, USA
Mayflower Botanicals, Inc.	Massachusetts, USA
Elephant Head Farm, LLC	Arizona, USA
Retail Management Associates, LLC	Arizona, USA
Arizona Natural Remedies, Inc.	Arizona, USA
Vireo Health of New Mexico, LLC	Delaware, USA
Red Barn Growers, Inc.	New Mexico, USA
Resurgent Biosciences, Inc.	Delaware, USA
Vireo Health of Puerto Rico, LLC	Delaware, USA
Vireo Health de Puerto Rico, Inc.	Puerto Rico
XAAS Agro, Inc.	Puerto Rico
Vireo Health of Nevada 1, LLC	Nevada, USA
Verdant Grove, Inc.	Massachusetts, USA

The entities listed above are wholly owned, or effectively controlled by the Company and have been formed or acquired to support the intended operations of the Company and all intercompany transactions and balances have been eliminated in the financial statements of the Company.

During the year ended December 31, 2020, the following entities have been removed as a result of business dispositions: High Gardens, Inc., Midwest Hemp Research, LLC, Pennsylvania Medical Solutions, LLC, and Pennsylvania Dispensary Solutions, LLC. Refer to Note 3 for further details on business dispositions.

On March 18, 2019, Vireo U.S. completed the RTO of Vireo Health International Inc. (formerly Darien Business Development Corp. or “**Darien**”) whereby Darien acquired all of the issued and outstanding shares of Vireo U.S. Following the completion of the Transaction, the former shareholders of Vireo U.S. acquired control of the Company, as they own a majority of the outstanding shares of the Company upon completion of the Transaction.

Recently adopted accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 requires the measurement of current expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Adoption of ASU 2016-13 will require financial institutions and other organizations to use forward-looking information to better formulate their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. This update will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company implemented the provisions of ASU 2016-13 on January 1, 2020. The adoption of the standard did not have a material impact on the Company's results of operations or cash flows.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820) ("ASU 2018-13"). ASU 2018-13 adds, modifies, and removes certain fair value measurement disclosure requirements. ASU 2018-13 is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The following are the changes that will have an immediate disclosure impact for the Company upon adoption of the guidance for fair value measurement: (i) disclosure of the valuation processes for Level 3 fair value measurements is no longer required, (ii) changes in unrealized gains and losses for the reporting period included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period is a new disclosure requirement, and (iii) the range and weighted average (or reasonable and rational method) of significant unobservable inputs used to develop Level 3 fair value measurement is a new disclosure requirement. The Company implemented the provisions of ASU 2018-13 on January 1, 2020. The adoption of the standard did not have a material impact on the Company's results of operations or cash flows.

Use of estimates and significant judgments

The preparation of the Company's consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of revenue, expenses, assets, liabilities, accompanying disclosures and the disclosure of contingent liabilities. These estimates and judgments are subject to change based on experience and new information which could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities affecting future periods. Estimates and judgments are assessed on an ongoing basis. Revisions to estimates are recognized prospectively.

Examples of key estimates in these consolidated financial statements include cash flows and discount rates used in accounting for business combinations including contingent consideration, asset impairment including estimated future cash flows and fair values, the allowance for doubtful accounts receivable and trade receivables, inventory valuation adjustments that contemplate the market value of, and demand for inventory, estimated useful lives of property and equipment and intangible assets, valuation allowance on deferred income tax assets, determining the fair value of financial instruments, fair value of stock-based compensation, estimated variable consideration on contracts with customers, sales return estimates, the fair value of the convertible notes and equity component and the classification, incremental borrowing rates and lease terms applicable to lease contracts.

Financial statement areas that require significant judgments are as follows:

Assets held for sale and discontinued operations - The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and their fair value less cost to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or the disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

A discontinued operation is a component of the Company that either has been abandoned, disposed of, or is classified as held for sale, and: (i) disposal group is a component of an entity (or group of components); (ii) component of an entity (or group of components) meets the held for sale criteria, is disposed of by sale, or is disposed of other than by sale; (iii) component of an entity (or group of components) represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. A component of the Company comprises an operation and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company. During the year ended December 31, 2020, the Company completed divestitures of four subsidiaries, further described in Note 3. None of these divestitures represent a strategic shift that has or will have a major effect on an entity's operations and financial results, and as such, none of these divestitures are considered a discontinued operation.

Asset impairment – Asset impairment tests require the allocation of assets to asset groups, where appropriate, which requires significant judgment and interpretation with respect to the integration between the assets and shared resources. Asset impairment tests require the determination of whether there is an indication of impairment. The assessment of whether an indication of impairment exists is performed at the end of each reporting period and requires the application of judgment, historical experience, and external and internal sources of information.

Leases – The Company applies judgment in determining whether a contract contains a lease and if a lease is classified as an operating lease or a finance lease. The Company determines the lease term as the non-cancellable term of the lease, which may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

The Company has several lease contracts that include extension and termination options. The Company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Company also applies judgment in allocating the consideration in a contract between lease and non-lease components. It considers whether the Company can benefit from the right-of-use asset either on its own or together with other resources and whether the asset is highly dependent on or highly interrelated with another right-of-use asset.

Foreign currency

These financial statements are presented in the United States dollar ("**USD**"), which is the Company's reporting currency. The functional currency of the Company and its subsidiaries, as determined by management, is the United States ("**US**") dollar.

Net loss per share

Basic net loss per share is computed by dividing reported net loss by the weighted average number of common shares outstanding for the reported period. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock of the Company during the reporting period. Diluted net loss per share is computed by dividing net loss by the sum of the weighted average number of common shares and the number of potential dilutive common share equivalents outstanding during the period. Potential dilutive common share equivalents consist of the incremental common shares issuable upon the exercise of vested share options and the incremental shares issuable upon conversion of the convertible notes. Potential dilutive common share equivalents consist of stock options, warrants, and convertible notes.

In computing diluted earnings per share, common share equivalents are not considered in periods in which a net loss is reported, as the inclusion of the common share equivalents would be anti-dilutive. Since the Company is in a net loss for all periods presented in these financial statements, there is no difference between the Company's basic and diluted net loss per share for the periods presented.

The anti-dilutive shares outstanding for years ending December 31, 2020 and 2019 were as follows:

	For the year ended December 31,	
	2020	**2019**
Stock options	26,924,858	23,662,600
Warrants	17,121,411	17,988,609
Convertible notes	211,765	223,529
Total	44,258,034	41,874,738

Segment Information

Accounting Standards Codification ("**ASC**") 280, Segment Reporting, establishes disclosure requirements relating to operating segments in annual and interim financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly evaluated by the chief operating decision maker in deciding how to allocate resources to the segment and assess its performance. The Company operates in one business segment, namely as the Cannabis segment cultivates, processes and distributes medical and adult-use cannabis products in a variety of formats, as well as related accessories. The Company's Chief Executive Officer is the Company's chief operating decision maker.

Cash and cash equivalents

Cash and cash equivalents is comprised of cash and highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less.

The Company has no cash equivalents for the years presented.

Business combinations and goodwill

The Company accounts for business combinations using the acquisition method in accordance with ASC 805, Business Combinations, which requires recognition of assets acquired and liabilities assumed, including contingent assets and liabilities, at their respective fair values on the date of acquisition. Any excess of the purchase consideration over the net fair value of tangible and identified intangible assets acquired less liabilities assumed is recorded as goodwill. The costs of business acquisitions, including fees for accounting, legal, professional consulting and valuation specialists, are expensed as incurred within acquisition-related (income) expenses, net. Purchase price allocations may be preliminary and, during the measurement period not to exceed one year from the date of acquisition, changes in assumptions and estimates that result in adjustments to the fair value of assets acquired and liabilities assumed are recorded in the period the adjustments are determined.

The estimated fair value of acquired assets and assumed liabilities are determined primarily using a discounted cash flow approach, with estimated cash flows discounted at a rate that the Company believes a market participant would determine to be commensurate with the inherent risks associated with the asset and related estimated cash flow streams.

Fair value measurements

The carrying value of the Company’s accounts receivable, accounts payable, accrued expenses and other current liabilities approximate their fair value due to their short-term nature, and the carrying value of long-term loans and convertible debt approximates fair value as they bear a market rate of interest.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Inventory

Inventory is comprised of work-in-progress, finished goods and non-cannabis. Cost includes harvested finished goods, harvested cannabis (bud and trim) in progress, cannabis oil in progress, accessories, and packaging materials.

Inventory cost includes pre-harvest, post-harvest and shipment and fulfillment, as well as related accessories. Pre-harvest costs include labor and direct materials to grow cannabis, which includes water, electricity, nutrients, integrated pest management, growing supplies and allocated overhead. Post-harvest costs include costs associated with drying, trimming, blending, extraction, purification, quality testing and allocated overhead. Shipment and fulfillment costs include the costs of packaging, labelling, courier services and allocated overhead.

Inventory is stated at the lower of cost or net realizable value, determined using weighted average cost. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. At the end of each reporting period, the Company performs an assessment of inventory and records write-downs for excess and obsolete inventories based on the Company’s estimated forecast of product demand, production requirements, market conditions, regulatory environment, and spoilage. Actual inventory losses may differ from management’s estimates and such differences could be material to the Company’s balance sheets, statements of net loss and comprehensive loss and statements of cash flows.

Property and equipment

Property and equipment are recorded at cost net of accumulated depreciation and impairment, if any. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful life of buildings and improvements ranges from five to fifteen years, the estimated useful life of property and equipment, other than buildings, ranges from three to ten years. Land is not depreciated. Leasehold improvements, included in buildings and improvements, are depreciated over the lesser of the asset’s estimated useful life or the remaining lease term. The estimated useful life of right of use assets relating to operating and finance leases ranges from one to sixty-four years.

When assets are retired or disposed of, the cost and accumulated depreciation are removed from the respective accounts and any related gain or loss is recognized. Maintenance and repairs are charged to expenses as incurred. Significant expenditures, which extend the useful lives of assets or increase productivity, are capitalized. When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items or components of property and equipment.

Construction-in-process includes construction progress payments, deposits, engineering costs, interest expense on long-term construction projects and other costs directly related to the construction of the facilities. Expenditures are capitalized during the construction period and construction in progress is transferred to the relevant class of property and equipment when the assets are available for use, at which point the depreciation of the asset commences.

The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Capitalization of interest

Interest incurred relating to the construction or expansion of facilities is capitalized to the construction in progress. The Company ceases the capitalization of interest when construction activities are substantially completed and the facility is available for commercial use.

Intangible assets

Intangible assets include intangible assets acquired as part of business combinations, asset acquisitions and other business transactions. The Company records intangible assets at cost, net of accumulated amortization and accumulated impairment losses, if any. Cost is measured based on the fair values of cash consideration paid and equity interests issued. The cost of an intangible asset acquired is its acquisition date fair value.

Amortization of definite life intangible assets is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Licenses	4-20 years

When there is no foreseeable limit on the period of time over which an intangible asset is expected to contribute to the cash flows of the Company, an intangible asset is determined to have an indefinite life. Indefinite life intangible assets are not amortized but tested for impairment annually or more frequently when indicators of impairment exist. If the carrying value of an individual indefinite-lived intangible asset exceeds its fair value, such individual indefinite-life intangible asset is impaired by the amount of the excess.

The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of long-lived assets

The Company reviews long-lived assets, including property and equipment and definite life intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In order to determine if assets have been impaired, assets are grouped and tested at the lowest level for which identifiable independent cash flows are available ("**asset group**"). An impairment loss is recognized when the sum of projected undiscounted cash flows is less than the carrying value of the asset group. The measurement of the impairment loss to be recognized is based on the difference between the fair value and the carrying value of the asset group. Fair value can be determined using a market approach, income approach or cost approach. The reversal of impairment losses is prohibited.

Impairment of goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are tested for impairment annually, or more frequently when events or circumstances indicate that impairment may have occurred. As part of the impairment evaluation, the Company may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of the indefinite-lived intangible asset or the reporting unit (for goodwill) is less than its carrying value, a quantitative impairment test to compare the fair value to the carrying value is performed. An impairment charge is recorded if the carrying value exceeds the fair value.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("**ROU**") assets and right-of-use liabilities (current and non-current) in the balance sheets. Finance lease ROU assets are included in property and equipment, net and ROU liabilities (current and non-current) in the balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets are classified as a finance lease or an operating lease. A finance lease is a lease in which 1) ownership of the property transfers to the lessee by the end of the lease term; 2) the lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise; 3) the lease is for a major part of the remaining economic life of the underlying asset; 4) The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already included in the lease payments equals or exceeds substantially all of the fair value; or 5) the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. The Company classifies a lease as an operating lease when it does not meet any one of these criteria.

ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the incremental borrowing rate is used based on the information available at commencement date in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. The ROU assets also include any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

For finance leases, lease expenses are the sum of interest on the lease obligations and amortization of the ROU assets, resulting in a front-loaded expense pattern. ROU assets are amortized based on the lesser of the lease term and the useful life of the leased asset according to the property and equipment accounting policy. If ownership of the ROU assets transfers to the Company at the end of the lease term or if the Company is reasonably certain to exercise a purchase option, amortization is calculated using the estimated useful life of the leased asset, according to the property and equipment accounting policy. For operating leases, the lease expenses are generally recognized on a straight-line basis over the lease term and recorded to general and administrative expenses in the statements of net loss and comprehensive loss.

The Company has elected to apply the practical expedient, for each class of underlying asset, except real estate leases, to not separate non-lease components from the associated lease components of the lessee's contract and account for both components as a single lease component.

The Company has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less that do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. Short-term leases include real estate and vehicles and are not significant in comparison to the Company's overall lease portfolio. The Company continues to recognize the lease payments associated with these leases as expenses on a straight-line basis over the lease term.

Convertible notes

The Company accounts for its convertible notes with a cash conversion feature in accordance with ASC 470-20, Debt with Conversion and Other Options ("**ASC 470-20**"), which requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. The initial proceeds from the sale of convertible notes are allocated between a liability component and an equity component in a manner that reflects interest expense at the rate of similar nonconvertible debt that could have been issued at such time. The equity component represents the excess initial proceeds received over the fair value of the liability component of the notes as of the date of issuance. The resulting debt discount is amortized over the period during which the convertible notes are expected to be outstanding as additional non-cash interest expenses.

Upon repurchase of convertible debt instruments, ASC 470-20 requires the issuer to allocate total settlement consideration, inclusive of transaction costs, amongst the liability and equity components of the instrument based on the fair value of the liability component immediately prior to repurchase. The difference between the settlement consideration allocated to the liability component and the net carrying value of the liability component, including unamortized debt issuance costs, would be recognized as gain (loss) on extinguishment of debt in the statements of net loss and comprehensive loss. The remaining settlement consideration allocated to the equity component would be recognized as a reduction of additional paid-in capital in the balance sheets.

Revenue recognition

Revenue is recognized when control of the promised goods or services, through performance obligations by the Company, is transferred to the customer in an amount that reflects the consideration it expects to be entitled to in exchange for the performance obligations.

The Company generates substantially all its revenue from the direct sale of cannabis products through contracts with medical customers. Cannabis products are sold through various distribution channels. Revenue is recognized when the control of the goods is transferred to the customer, which occurs at a point in time, typically upon delivery to or receipt by the customer, depending on shipping terms.

Sales taxes collected from customers are remitted to the appropriate taxing jurisdictions and are excluded from sales revenue as the Company considers itself a pass-through conduit for collecting and remitting sales taxes. Excise duties that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer are included in revenue. Freight revenues on all product sales, when applicable, are also recognized, on a consistent manner, at a point in time. The term between invoicing and when payment is due is not significant and the period between when the entity transfers the promised good or service to the customer and when the customer pays for that good or service is one year or less.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration from the customer. If a customer pays consideration before the Company transfers goods or services, a contract liability is recognized when the payment is made. Contract liabilities are recognized as revenue when the Company performs under the contract.

The Company considers whether there are other promises in the contracts that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Company considers the effects of variable consideration and the existence of significant financing components (if any).

(i) *Variable consideration*

Some contracts for the sale of goods may provide customers with a right of return, volume discount, bonuses for volume/quality achievement, or sales allowance. In addition, the Company may provide in certain circumstances, a retrospective price reduction to a customer based primarily on inventory movement. These items give rise to variable consideration. The Company uses the expected value method to estimate the variable consideration because this method best predicts the amount of variable consideration to which the Company will be entitled. The Company uses historical evidence, current information and forecasts to estimate the variable consideration. The requirements in ASC 606 on constraining estimates of variable consideration are applied to determine the amount of variable consideration that can be included in the transaction price. The Company reduces revenue and recognizes a contract liability equal to the amount expected to be refunded to the customer in the form of a future rebate or credit for a retrospective price reduction, representing its obligation to return the customer's consideration. The estimate is updated at each reporting period.

(ii) *Significant financing component*

The Company may receive short-term advances from its customers. Using the practical expedient in ASC 606, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good to a customer and when the customer pays for that good or service will be one year or less. The Company has not, nor expects to receive long-term advances from customers.

(iii) *Contract balance*

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration.

Accounts receivable

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration).

Cost of sales

Cost of sales represents costs directly related to manufacturing and distribution of the Company's products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling and the depreciation of manufacturing equipment and production facilities. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance and property taxes. Cost of sales also includes inventory valuation adjustments. The Company recognizes the cost of sales as the associated revenues are recognized.

Stock-based compensation

The Company measures and recognizes compensation expense for stock options to employees and non-employees on a straight-line basis over the vesting period based on their grant date fair values. Prior to the adoption of ASU 2018-07 on January 1, 2019, the fair value of stock options to non-employees were re-measured at each reporting date until one of either of the counterparty's commitment to perform is established or until the performance is complete. The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option pricing model. Determining the estimated fair value of at the grant date requires judgment in determining the appropriate valuation model and assumptions, including the fair value of subordinated voting shares on the grant date, risk-free rate, volatility rate, annual dividend yield and the expected term. The volatility rate is based on historical volatilities of public companies operating in a similar industry to the Company.

For stock options granted, the fair value of common stock at the date of grant was determined by the Board of Directors with assistance from third-party valuation specialists. The Company estimates forfeitures at the time of grant and revises these estimates in subsequent periods if actual forfeitures differ from those estimates.

Fully vested, non-forfeitable equity instruments issued to parties other than employees are measured on the date they are issued where there is no specific performance required by the grantee to retain those equity instruments. Stock-based payment transactions with non-employees are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Where fully vested, non-forfeitable equity instruments are granted to parties other than employees in exchange for notes or financing receivable, the note or receivable is presented in additional paid-in capital on the balance sheets.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Management assesses the likelihood that the resulting deferred tax assets will be realized. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes uncertain income tax positions at the largest amount that is more likely than not to be sustained upon audit 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. Changes in recognition or measurement are reflected in the period in which judgment occurs.

New accounting pronouncements not yet adopted

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740) which is intended to simply the accounting for income taxes by eliminating certain exceptions and simplifying certain requirements under Topic 740. Updates are related to intraperiod tax allocation, deferred tax liabilities for equity method investments interim period tax calculations, tax laws or rate changes in interim periods, and income taxes related to employee stock ownership plans. The guidance for ASU No. 2019-12 becomes effective on January 2021. Management is currently evaluating the impact of these changes on the 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 and 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 is effective for the Company beginning January 1, 2021. The Company is currently evaluating the effect of adopting this ASU on the Company’s financial statements.

3. Business Combinations and Dispositions

Dispositions

On June 22, 2020, the Company reached a definitive agreement with Jushi Inc, a subsidiary of Jushi Holdings, Inc. (“**Jushi**”), to divest all the equity in its subsidiary company, Pennsylvania Medical Solutions, LLC (“**PAMS**”). On August 11, 2020, the Company completed the sale of its equity in PAMS to Jushi, for consideration of $20,320,936 including a $3,750,000 four-year note with an 8 percent coupon rate payable quarterly. As part of this transaction, the Company transferred assets and liabilities with a net book value of 3,204,868. Consideration received exceeded PAMS net assets at the time of sale, resulting in a gain of $17,116,068 which was recorded in the statement of loss and comprehensive loss for the year ended December 31, 2020.

In July of 2020, the Company divested all the equity in its subsidiary company, Midwest Hemp Research, LLC, to the CEO of the Company. Prior to the disposition, the Company had $50,000 in outstanding convertible notes associated with the initial acquisition of Midwest Hemp, and had recorded an intangible asset of $50,000 on the balance sheet. Upon divestiture these outstanding convertible notes and accrued interest with a balance of $52,038 were cancelled, and the intangible asset with a net book value of $45,000 was disposed of, resulting in a gain of $7,038.

On September 11, 2020, the Company divested all the equity in its subsidiary company, High Gardens, Inc., in exchange for a 10% royalty on all future net revenues generated by High Gardens, Inc. The fair value of this royalty consideration was $68,276 and is classified as an intangible asset with an indefinite life on the balance sheet. This consideration received was less than High Gardens, Inc. net assets of $340,999 at the time of sale, resulting in a loss of $272,723 which was recorded in the statement of loss and comprehensive loss for the year ended December 31, 2020. As described above, this asset was subsequently disposed in September 2020.

On December 17, 2020, the Company divested all the equity in its subsidiary company, Pennsylvania Dispensary Solutions, LLC, to Jushi in exchange for consideration of $5,726,848 cash. Consideration received exceeded PAMS net assets of $2,324,054 at the time of sale, resulting in a gain of $3,402,794 which was recorded in the statement of loss and comprehensive loss for the year ended December 31, 2020.

Assets held for sale

On October 1, 2020, the Company reached a definitive agreement with Ayr Strategies Inc. ("**Ayr**") to sell all of the assets and liabilities of its affiliated company, Ohio Medical Solutions, Inc. ("**OMS**") for $1,150,000 in cash.

Assets and liabilities relating to OMS have been classified as "held for sale." The carrying value of assets held for sale, net of liabilities to be assumed by Ayr, related to OMS was less than the agreed upon purchase price of $1,150,000. As such, no allowance for loss on assets held for sale was recorded as of December 31, 2020. The Company expects to recognize a gain when the sale is completed in 2021.

Assets and liabilities held for sale relating to OMS are as follows:

		OMS
Assets held for sale		
Cash and cash equivalents	$	124,843
Receivables		25,469
Inventories		338,177
Prepaids		104,777
Right of use asset		3,194,384
Property and equipment		556,795
Deposits		252,000
Total assets held for sale	$	4,596,445
Liabilities held for sale		
Accounts payable and accrued liabilities		29,109
Right of Use Liability		3,566,192
	$	3,595,301

Reverse Takeover

On March 18, 2019, Vireo U.S. completed the reverse take-over of Vireo Health International Inc. (formerly Darien) (the "**RTO**") whereby Darien acquired all of the issued and outstanding shares of Vireo U.S. Following the completion of the RTO, the former shareholders of Vireo U.S. acquired control of the Company, as they own a majority of the outstanding shares of the Company upon completion of the RTO.

The RTO is being treated as a reverse recapitalization effected by a share exchange for financial accounting and reporting purposes since substantially all of Darien operations were disposed of as part of the consummation of the RTO and therefore no goodwill or other intangible assets were recorded by the Company as a result of the RTO. Vireo U.S. is treated as the accounting acquirer as its stockholders control the Company after the RTO, even though Darien was the legal acquirer. As a result, the assets and liabilities and the historical operations that are reflected in these financial statements are those of Vireo U.S. as if Vireo U.S. had always been the reporting company. All reference to Vireo U.S. shares of common stock, warrants and options have been presented on a post-transaction, post-reverse split basis.

The fair value of the shares issued in the transaction was $2,999,986 and was listed as additional paid in capital in the statement of stockholder's equity. Under ASC 805 any excess of the fair value of the shares issued by the private entity over the value of the net monetary assets of the public shell corporation is recognized as a reduction to equity. The additional transaction cost associated with the RTO, $568,247 would still be expensed as incurred and would require no adjustment but would not be listed as a listing expense rather a transaction expense.

Acquisition of Elephant Head Farm, LLC and retail Management Associates, LLC

On March 22, 2019, the Company acquired all of the equity interests of Elephant Head Farm, LLC and Retail Management Associates, LLC (collectively, the "**AZ entities**"). The purpose of this acquisition was to acquire the exclusive right to manage and control Arizona Natural Remedies, an Arizona nonprofit corporation with licenses to cultivate and distribute medical cannabis in the state of Arizona. As part of the transaction, the Company paid $10,500,000 in cash, issued $7,594,463 in multiple voting shares, and incurred total transaction costs related to the acquisition of $723,272, including a finders' fee of $620,000. The transaction costs are included in selling, general and administrative expenses in the consolidated statement of net loss and comprehensive loss.

The financial results of the AZ entities are included in the Company's financial statements since acquisition close. The statements of net loss and comprehensive loss include revenue of $4,631,052 and net loss of $5,413,373 for the year ended December 31, 2019, respectively.

The final allocations of the purchase price to assets acquired and liabilities assumed on the acquisition date is listed below. The goodwill of $7,792,605 is attributable to the benefit of expected revenue growth and future market development. Goodwill is not deductible for tax purposes.

		AZ Entities
Assets		
Cash and cash equivalents	$	340,507
Inventory		2,028,000
Other current assets		277,340
Property and equipment		1,033,135
Right of Use Assets		81,603
Intangible Asset (License)		6,800,000
Goodwill		7,792,605
Total assets		18,353,190
Liabilities		
Accounts payable and accrued liabilities		177,124
Right of Use Liability		81,603
Total liabilities		258,727
Net assets acquired	$	18,094,463

Acquisition of Red Barn Growers

On March 25, 2019, the Company acquired substantially all of the assets of Silver Fox Management Services, LLC ("**Silver Fox**") including all intellectual property, contracts, leases, license rights and inventory. The purpose of this acquisition was to acquire the exclusive right to manage and control Red Barn Growers, Inc. ("**Red Barn Growers**"), a New Mexico nonprofit corporation with licenses to cultivate and distribute medical cannabis in the state of New Mexico. As part of the transaction, the Company paid $2,000,000 in cash, issued $3,130,306 in multiple voting shares, and incurred total transaction costs related to the acquisition of $16,608.

The financial results of Red Barn Growers are included in the Company's financial statements since acquisition close. The statements of net loss and comprehensive loss include revenue of $1,085,332 and net loss of $4,010,077 for the year ended December 31, 2019, respectively.

The final allocations of the purchase price to assets acquired and liabilities assumed on the acquisition date is listed below. The goodwill of $3,878,300 is attributable to the benefit of expected revenue growth and future market development. Goodwill is not deductible for tax purposes.

		Red Barn Growers
Assets		
Cash and cash equivalents	$	75,695
Inventory		549,576
Other current assets		497
Property and equipment		73,290
Right of Use Assets		125,493
Intangible Asset (License)		569,400
Goodwill		3,878,300
Total assets		5,272,251
Liabilities		
Accounts payable and accrued liabilities		16,452
Right of Use Liability		125,493
Total liabilities		141,945
Net assets acquired	$	5,130,306

Acquisition of MJ Distributing C201, LLC and MJ Distributing P132, LLC

On April 10, 2019, the Company entered into a definitive agreement to acquire 100% of the membership interests in MJ Distributing C201, LLC and MJ Distributing P132, LLC ("**MJ Distributing**") which hold provisional licenses to cultivate and distribute, respectively, medical cannabis in the state of Nevada. The purpose of this acquisition was to acquire a medical marijuana license in the state of Nevada. The acquisition was financed with cash on hand and borrowings.

As of December 31, 2019 and 2020, the Company had made cash deposits with the sellers and in escrow of $1,592,500 and placed convertible promissory notes in the amount of $2,500,000 in escrow, as consideration for the equity. Additionally, as of December 31, 2019, there were deferred acquisition costs of $28,136.

The completion of the acquisition of MJ Distributing is conditional upon the Nevada Department of Taxation's approval of the change in ownership, which occurred on January 5, 2021. See Note 26 for additional information on the close of this acquisition.

Asset Acquisitions

Acquisition of High Gardens, Inc.

On January 4, 2019, the Company acquired all of the issued and outstanding shares of High Gardens, Inc. The purpose of this acquisition was to acquire a medical marijuana license in the State of Rhode Island. As part of the asset acquisition, the Company paid $300,000 in cash, issued $700,000 in convertible debt, and incurred acquisition costs of $26,256 for the acquisition of High Gardens, Inc. Management determined the consideration paid was equal to the fair value of the intangible asset acquired, or $1,026,256. The related operating results are included in the accompanying consolidated statements of net loss, changes in stockholders' equity, and statement of cash flows commencing from the date of acquisition.

Acquisition of Mayflower Botanicals, Inc.

On March 29, 2019, the Company completed the 100% acquisition of Mayflower Botanicals, Inc. The purpose of this acquisition was to acquire a medical marijuana license in the State of Massachusetts. As part of the asset acquisition, the Company paid $1,001,165 in cash, issued $13,094,032 in multiple voting shares, and incurred acquisition costs of $2,962,392, of which $2,902,492 related to the issuance of multiple voting shares as a finder's fee, for the acquisition of Mayflower Botanicals, Inc. Management determined the consideration paid was equal to the fair value of the intangible asset acquired, or $17,057,589. The related operating results are included in the accompanying consolidated statements of operations, changes in shareholders' equity, and statement of cash flows commencing from the date of acquisition.

Acquisition of XAAS Agro, Inc.

On June 19, 2019, the Company completed the 100% acquisition of XAAS Agro, Inc. The purpose of this acquisition was to acquire a medical marijuana license in the territory of Puerto Rico. As part of the asset acquisition, the Company paid $900,000 in cash, issued $900,000 in convertible debt, and incurred acquisition costs of $91,863, for the acquisition of XAAS Agro, Inc. Management determined the consideration paid was equal to the fair value of the intangible asset acquired, or $1,891,863. The related operating results are included in the accompanying consolidated statements of net loss, changes in stockholder's equity, and statement of cash flows commencing from the date of acquisition.

Acquisition of Midwest Hemp Research, LLC

During the year ended December 31, 2019, the Company completed the 100% acquisition of Midwest Hemp Research, LLC. The purpose of this acquisition was to acquire an industrial hemp license in the state of Minnesota. As part of the asset acquisition, the Company issued $50,000 in convertible debt for the acquisition of Midwest Hemp Research, LLC. Management determined the consideration paid was equal to the fair value of the intangible asset acquired, or $50,000. The related operating results are included in the accompanying consolidated statements of net loss, changes in stockholders' equity, and statement of cash flows commencing from the date of acquisition. As described above, this asset was sold in July 2020.

4. Fair Value Measurements

The Company complies with ASC 820, Fair Value Measurements, for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability.

The following tables present information about the Company's assets that are measured at fair value on a recurring basis as of December 31, 2020 and 2019 indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
December 31, 2020				
Cash	$ 25,513,180	$ -	$ -	$ 25,513,180
Restricted cash	1,592,500	-	-	1,592,500
Total assets	$ 27,105,680	$ -	$ -	$ 27,105,680
December 31, 2019				
Cash	$ 7,641,673	$ -	$ -	$ 7,641,673
Restricted cash	1,592,500	-	-	1,592,500
Cash and Restricted Cash	9,234,173	$ -	$ -	$ 9,234,173
Total assets	$ 9,234,173	$ -	$ -	$ 9,234,173

Items measured at fair value on a non-recurring basis

The Company's non-financial assets, such as prepayments and other current assets, long lived assets, including property and equipment and intangible assets, are measured at fair value when there is an indicator of impairment and are recorded at fair value only when an impairment charge is recognized. In connection with an evaluation of such non-financial assets during the year ended December 31, 2019, the carrying values of intangible assets and goodwill were concluded to exceed their fair values. As a result, the Company recorded impairment charges that incorporates fair value measurements based on Level 3 inputs (refer to Notes 11 & 12). No additional impairment was determined necessary for the year ended December 31, 2020.

The estimated fair value of cash and cash equivalents, accounts receivable, net, accounts payable, and accrued expenses and other current liabilities at December 31, 2020 and 2019 approximate their carrying amount due to short term nature of these instruments.

5. Trade Receivables

Trade receivables are comprised of the following items:

	December 31, 2020	December 31, 2019
Trade receivable	$ 486,807	$ 1,025,963
Tenant improvements receivable	127,160	-
Other	83,027	-
Total	$ 696,994	$ 1,025,963

Included in the trade receivables, net balance at December 31, 2020, and 2019, is an allowance for doubtful accounts of $132,490 and $278,309, respectively.

6. Notes Receivable

As of December 31, 2020, and 2019, the Company had a total of $4,043,700 and $0, respectively, in notes receivable. The December 31, 2020, balance is comprised primarily of the $3,750,000 four-year note with an 8 percent coupon rate payable quarterly obtained as part of the PAMS disposition further described in Note 3.

7. Inventory

Inventory is comprised of the following items:

	December 31, 2020	December 31, 2019
Work-in-progress	$ 8,317,502	$ 11,000,462
Finished goods	3,980,900	3,324,920
Non-cannabis inventory	346,493	346,194
Total	$ 12,644,895	$ 14,671,576

Inventory is written down for any obsolescence, spoilage and excess inventory or when the net realizable value of inventory is less than the carrying value. Inventory valuation adjustments included in cost of sales on the statements of net loss and comprehensive loss is comprised of the following:

	December 31, 2020	December 31, 2019
Work-in-progress	$ 381,401	$ -
Finished goods	592,983	865,405
Non-cannabis inventory	-	-
Total	$ 974,384	$ 865,405

During the years ended December 31, 2020 and 2019, the Company recorded write downs to net realizable value in its Maryland, Pennsylvania, and Ohio subsidiaries. Based on the market sales price relative to the cost to produce certain inventories, these costs could not be recovered, and as a consequence net realizable value was less than carrying value of inventory. Accordingly, inventory valuation adjustments amounting to $974,384 and $865,405 were recorded in 2020 and 2019 respectively.

8. Prepayments and other current assets

Prepayments and other current assets are comprised of the following items:

	December 31, 2020	December 31, 2019
Prepaid Rent	$ -	$ 138,512
Prepaid Insurance	921,600	983,774
Other Prepaid Expenses	630,678	1,163,262
Total	$ 1,552,278	$ 2,285,548

9. Deferred Acquisition Costs

As of each of December 31, 2020, and 2019, the Company had a total of $28,136 for deferred acquisition costs relating to the acquisition of MJ Distributing (Note 3), which had not yet closed.

10. Property and Equipment, Net

Property and equipment, net consisted of the following:

	December 31, 2020	December 31, 2019
Land	$ 1,309,949	$ 1,309,949
Buildings and leasehold improvements	7,280,665	5,523,380
Furniture and equipment	4,635,602	5,082,416
Software	221,540	105,968
Vehicles	379,852	399,302
Construction-in-progress	9,276,852	3,264,702
Right of use asset under finance lease	12,351,838	23,289,965
	35,456,298	38,975,682
Less: accumulated depreciation	(4,890,039)	(4,431,555)
Total	$ 30,566,259	$ 34,544,127

For the year ended December 31, 2020 and 2019, total depreciation on property and equipment was $2,481,083 and $2,246,979, respectively. For the year ended December 31, 2020 and 2019, accumulated amortization of the right of use asset amounted to $2,025,239 and $2,072,175, respectively. The right of use asset under finance lease of $12,351,838 consists of leased processing and cultivation premises. The Company capitalized into inventory $2,067,991 and $1,755,809 relating to depreciation associated with manufacturing equipment and production facilities as of December 31, 2020 and 2019, respectively. The capitalized depreciation costs associated are added to inventory and expensed through Cost of Sales Product Cost on the consolidated statements of net loss.

11. Leases

Components of lease expenses are listed below:

	December 31, 2020	December 31, 2019
Finance lease cost		
Amortization of ROU assets	$ 1,226,024	$ 918,888
Interest on lease liabilities	4,935,602	4,236,170
Operating lease expense	2,562,874	1,708,920
Total lease expenses	$ 8,724,500	$ 6,863,978

Future minimum lease payments (principal and interest) on the leases are as follows:

	Operating Leases December 31, 2020	Finance Leases December 31, 2020	Total
2021	$ 2,189,270	$ 2,824,778	$ 5,014,048
2022	2,070,332	2,928,236	4,998,568
2023	2,017,012	3,029,870	5,046,882
2024	1,894,235	3,135,040	5,029,275
2025	1,745,286	3,243,870	4,989,156
Thereafter	4,091,087	62,080,719	66,171,806
Total minimum lease payments	$ 14,007,222	$ 77,242,513	$ 91,249,735
Less discount to net present value			(70,049,378)
			$ 21,200,357

The Company has entered into various lease agreements for the use of buildings used in production and retail sales of cannabis products.

On April 10, 2020, the Company signed a fourth amendment to the existing lease agreements for the cultivation and processing facilities in Minnesota. Under the terms of the amendment, the term of the lease was extended to April 9, 2040, and provides for additional tenant improvements up to $6,698,183. The amended agreement for the cultivation and processing facility in Minnesota requires regular monthly payments of $129,350.

On April 10, 2020, the Company signed a second amendment to the existing lease agreements for the cultivation and processing facilities in New York. Under the terms of the amendment, the term of the lease was extended to April 9, 2035, and provides for additional tenant improvements up to $3,360,000. The amended agreement for the cultivation and processing facility in New York requires regular monthly payments of $90,519.

On April 10, 2020, the Company signed a third amendment to the existing lease agreements for the cultivation and processing facilities in Pennsylvania. Under the terms of the amendment, tenant improvements were reduced to $8,036,670. The amended agreement for the cultivation and processing facility in Pennsylvania requires regular monthly payments of $184,786. This lease was transferred on the disposition of PAMS (Note 3).

On January 14, 2020, the Company signed a second amendment to the existing lease agreements for the cultivation and processing facilities in Pennsylvania. Under the terms of the second amendment, the term of the lease was extended to December 7, 2038 and provides for additional tenant improvements of up to $8,336,670. The amended agreement for the cultivation and processing facility in Pennsylvania requires regular monthly payments of $182,419.

During the year ended December 31, 2019, the Company entered into sale and leaseback transactions for cultivation facilities. As part of the transaction, the Company entered a lease agreement for the cultivation facilities as follows:

- The lease agreement for a processing facility in Ohio with a fair value of $1,018,123 is for 15 years with two consecutive options to extend for an additional 5 years each. The effective interest rate on the lease is 15% and requires regular monthly payments of $42,000, which increase by 3.5% each year. The lease also provides for a Tenant Improvement (“**TI**”) allowance up to $2,581,887.

Supplemental cash flow information related to leases

	December 31, 2020	December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows from finance leases	$ 1,576,553	$ 581,830
Non-cash additions to ROU assets	8,836,087	6,206,226
Amortization of operating leases	1,343,257	877,514

Other information about lease amounts recognized in the financial statements

	December 31, 2020	December 31, 2019
Weighted-average remaining lease term (years) – operating leases	6.76	6.63
Weighted-average remaining lease term (years) – finance leases	18.38	13.05
Weighted-average discount rate – operating leases	15.00%	15.00%
Weighted-average discount rate – finance leases	22.31%	20.49%

12. Goodwill

The following table shows the change in carrying amount of goodwill:

Goodwill - January 1, 2019	$ -
Acquisition of Elephant Head Farm	7,792,605
Acquisition of Red Barn	3,878,300
Impairment	(8,538,414)
Goodwill - December 31, 2019 and 2020	$ 3,132,491

Goodwill is tested for impairment annually or more frequently if indicators of impairment exist or if a decision is made to dispose of business. The valuation date for the Company annual impairment testing is December 31. On this date, the Company performed a qualitative test to determine whether it is necessary to perform a two-step goodwill impairment test.

After assessing the totality of the events and circumstances surrounding the performance and outlook of Red Barn and Arizona entities the Company determined that it is more likely than not that the fair value of a reporting unit exceeds its carrying amount. As such, the first and second steps of the goodwill impairment test are unnecessary, and no impairment charge was taken.

On December 31, 2019, the Company compared the current fair value of each reporting unit to the net book value, including goodwill. The Company utilized a discounted cash flow model (“**DCF model**”) to estimate the current fair value of reporting units, as management believes forecasted operating cash flows are the best indicator of current fair value. A number of significant assumptions and estimates were involved in the preparation of DCF models including future revenues and operating margin growth, the weighted-average cost of capital of approximately 20% (“WACC”), tax rates, capital spending, impact of business initiatives and working capital projections. DCF models are based on approved long-range plans for the early years and historical relationships and projections for later years. WACC rates are derived from internal and external factors including, but not limited to, the average market price of the Company's stock, book value of the Company's debt, the long-term risk-free interest rate, and both market and size-specific risk premiums.

The net book value of the Red Barn and Elephant Head Farms reporting units exceeded their current fair values. Accordingly, the second step of the goodwill impairment test (“**Step 2**”) was performed to determine if an impairment existed and the amount of goodwill impairment to record, if any.

Step 2 compared the net book value of the reporting unit’s goodwill with the implied fair value of that goodwill. The implied fair value of goodwill represents the excess of fair value of the reporting units over the fair value amounts assigned to all of the assets and liabilities of the reporting unit if it were to be acquired in a hypothetical business combination and the current fair value of the reporting unit represented the purchase price. The result was that the net book value of two reporting units’ goodwill exceeded the implied fair values. Accordingly, an impairment charge of $8,538,414 was recorded (Elephant Head Farm: $4,844,270), (Red Barn: $3,694,144).

As a result of the impairment, the difference between the carrying value of the reporting unit and its fair value (typically referred to as “headroom”) is smaller at the time of acquisition for Elephant Head Farm. Accordingly, a relatively small decrease in reporting unit fair value can trigger an impairment test which could potentially result in an additional impairment charge.

13. Intangibles

During the year ended December 31, 2019, the Company acquired cannabis licenses in Arizona, Massachusetts, New Mexico, Puerto Rico, and Rhode Island. The fair value allocated to a license is depreciated over its expected useful life, which is estimated between 4-20 years.

Intangible assets are comprised of the following items:

	Licenses	Royalty Asset	Total
Balance December 31, 2018	$ 2,184,565	$ -	2,184,565
Acquisition *(Note 3)*	27,407,337	-	27,407,337
Amortization	(864,229)	-	(864,229)
Impairment	(19,726,436)	-	(19,726,436)
Balance, December 31, 2019	9,001,237	-	9,001,237
Additions *(Note 3)*	-	68,276	68,276
Dispositions (Note 3)	(45,000)	-	(45,000)
Amortization	(615,094)	-	(615,094)
Balance, December 31, 2020	$ 8,341,143	$ 68,276	8,409,419

Amortization expense for intangibles was $615,094 and $864,229 during the years ending December 31, 2020 and 2019, respectively and is recorded in operating expenses on the Consolidated Statements of Net Loss and Comprehensive Loss. During 2019, the Company decided not to pursue cannabis productions in Puerto Rico, Massachusetts, and Rhode Island. As a result, the licenses acquired from XAAS, Mayflower, and High Gardens were impaired by their entire values, totaling $19,726,436.

The Company estimates that amortization expense will be $615,094 per year, for the next five years.

14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following items:

	December 31,	
	2020	2019
Accounts payable – trade	$ 900,929	$ 1,364,899
Accrued Expenses	5,106,407	1,117,613
Taxes payable	7,227,245	444,311
Contract liability	242,722	210,263
Total accounts payable and accrued liabilities	$ 13,477,303	$ 3,137,086

15. Long-Term Debt

During the year ended December 31, 2017, the Company signed a promissory note payable in the amount of $1,010,000. The note bears interest at a rate of 15% per annum with interest payments required on a monthly basis. Effective November 13, 2019, the Company's promissory note payable in the amount of $1,010,000 was modified to increase the amount payable to $1,110,000 and extend the maturity date to December 31, 2021.

The following table shows a summary of the Company's long-term debt:

	December 31,	
	2020	2019
Beginning of year	$ 1,110,000	$ 1,010,000
Proceeds	-	100,000
End of year	1,110,000	1,110,000
Less: Current portion	(1,110,000)	-
Total long-term debt	$ -	$ 1,110,000

16. Derivative Liability

On March 9, 2020, the Company closed the first tranche of a non-brokered private placement and issued 13,651,574 Units at a price of C$ 0.77 per Unit. Each Unit is comprised of one subordinate voting share of the Company and one subordinate voting share purchase warrant.

Because of the Canadian denominated exercise price, these warrants do not qualify to be classified within equity and are therefore classified as derivative liabilities at fair value through profit or loss. On March 9, 2020, the warrants were valued using the Black Scholes option pricing model at $3,555,030 using the following assumptions: Share Price: $0.52; Exercise Price: $0.70; Expected Life: 3 years; Annualized Volatility: 90%; Dividend yield: 0%; Discount Rate: 0.38%; C$ Exchange Rate: 1.37.

On November 16, 2020, the Company announced the forced exercise of the warrants. The warrants were subsequently revalued prior to settlement using the Black Scholes options pricing model at $9,815,510 using the following assumptions: Share Price: $1.04; Exercise Price: $0.72; Expected Life: 2.44 years; Annualized Volatility: 90%; Dividend yield: 0%; Discount Rate: 0.13% - 0.18%; C$ Exchange Rate: 1.29 – 1.31. The resulting loss upon revaluation of $6,260,480 for the year ended December 31, 2020, is reflected in the statement of loss and comprehensive loss.

Upon settlement of the warrants, the Company received $9,857,498 million in cash, and extinguished the derivative liability of $9,815,510. Both the proceeds from the warrants, and the extinguishment of the derivative liability are included in Additional Paid in Capital on the balance sheet.

17. Convertible notes

3% Convertible Note

On January 3, 2019, the Company issued a convertible note with a face value of $700,000 in connection with the High Gardens acquisition (refer to Note 3). The convertible note bears interest at a rate of 3.0% per annum, payable monthly commencing January 3, 2019 and continuing on the first of each month, beginning on February 1, 2019. On June 4, 2019, the Company converted the outstanding principal and accrued interest into 1,665 Multiple Voting Shares pursuant to the original contractual terms.

2.76% Convertible Note

On January 1, 2019, the Company issued a convertible note with a face value of $50,000 in connection with the Midwest Hemp Research, LLC acquisition (refer to Note 3).The convertible notes bear interest at a rate of 2.76% per annum, payable monthly commencing January 1, 2019 and continuing on the first of each month, beginning on July 1, 2019. These notes were cancelled in July of 2020.

5% Convertible Note

On June 17, 2019, the Company issued a convertible note with a face value of $900,000 in connection with the XAAS Argo, Inc. acquisition (refer to Note 3).

The convertible note bears interest at a rate of 5.0% per annum, payable monthly commencing June 17, 2019 and continuing on the first of each month, beginning on July 1, 2019. Additional interest may accrue on the convertible note in specified circumstances. The convertible note will mature on June 17, 2021, unless earlier repurchased, redeemed or converted. There are no principal payments required over the two year term of the convertible note, except in the case of redemption or events of defaults.

The convertible note is the Company's general unsecured obligation and ranks senior in right of payment to all of the Company's indebtedness that is expressly subordinated in right of payment to the note; equal in right of payment with any of the Company's unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables but excluding intercompany obligations) of the Company's current or future subsidiaries.

The note includes customary covenants and sets forth certain events of default after which the convertible note may be declared immediately due and payable, including certain types of bankruptcy or insolvency involving the Company.

To the extent the Company or the Holder so elects, the convertible note will be convertible at the conversion rate equal to the price per share of the Company's capital stock as valued at in the RTO at $4.25 per share. The initial conversion rate for the convertible note is 235.2944 per one-thousand-dollar principal amount of the note which represents 211,765 shares of common stock, based on the $900,000 aggregate principal amount of convertible notes outstanding as of December 31, 2020.

The following table sets forth the net carrying amount of the convertible notes:

	December 31, 2020	December 31, 2019
5.00% convertible notes	$ 900,000	$ 900,000
2.76% convertible notes	-	50,001
3.00% convertible notes costs	-	-
Net carrying amount	$ 900,000	$ 950,001

18. Stockholders' Equity

Shares

The Company's certificate of incorporation authorized the Company to issue the following classes of shares with the following par value and voting rights as of December 31, 2019. The liquidation and dividend rights are identical among Shares equally in our earnings and losses on an as converted basis.

	Par Value	Authorized	Voting Rights
Subordinate Voting Share ("SVS")	-	Unlimited	1 vote for each share
Multiple Voting Share ("MVS")	-	Unlimited	100 votes for each share
Super Voting Share	-	Unlimited	1,000 votes for each share

Subordinate Voting Shares

Holders of Subordinate Voting Shares are entitled to one vote in respect of each Subordinate Voting Share held.

Multiple Voting Shares

Holders of Multiple Voting Shares will be entitled to one hundred votes for each Multiple Voting Share held.

Multiple Voting Shares each have the restricted right to convert to one hundred Subordinate Voting Shares subject to adjustments for certain customary corporate changes.

Super Voting Shares

Holders of Super Voting Shares will be entitled to ten votes in respect of each Subordinate Voting Share into which such Super Voting Share could ultimately then be converted, which for greater certainty, shall initially equal one thousand votes per Super Voting Share. Each Super Voting share shall be convertible into one Multiple Voting Share

On December 30, 2020, employee stock options were redeemed for 75,000 Subordinate Voting Shares. Proceeds from this transaction were $14,250 in cash.

On December 29, 2020, employee stock options were redeemed for 4,200 Multiple Voting Shares. Proceeds from this transaction were $79,800 in cash.

On November 16, 2020, the Company announced the forced exercise of the warrants issued in the March 9, 2020, non-brokered private placement transaction. Proceeds from this transaction were $9,857,498 in cash.

On March 9, 2020, the Company closed the first tranche of a non-brokered private placement and issued 13,651,574 Units at a price of C$ 0.77 per Unit. Each Unit is comprised of one Subordinate Voting Share of the Company and one subordinate voting share purchase warrant. Each warrant entitles the holder to purchase one Subordinate Voting Share for a period of three years from the date of issuance at an exercise price of C$ 0.96 per Subordinate Voting Share. The Company has the right to force the holders of the Warrants to exercise the Warrants into Shares if, prior to the maturity date, the five-trading-day volume weighted-average price of the Shares equals or exceeds C$ 1.44. Proceeds from this transaction were $7,613,490 net of share issuance costs of $104,173. The Company also recognized a derivative liability of $3,555,030 on the transaction which is included in additional paid-in capital (Note 16).

On March 18, 2019, the Company issued 12,090,937 SVS of the Company at $4.25 per share for gross proceeds of $51,386,482. In connection with the financing, the Company paid a cash fee to the agents equal to $2,826,739 and the agents were granted a combined 763,111 in compensation warrants with a value of $1,723,741. The agent's compensation warrants will be exercisable at a price of $4.25 per share for a period of two years. In addition, the Company paid a financial advisory fee of $415,000 and had costs in the amount of $379,785. Of total costs, $448,840 was incurred during the year ended December 31, 2018.

On March 18, 2019, the Company issued 705,879 SVSs as part of the RTO Transaction (refer to Note 3) in exchange for all outstanding shares of Vireo US at a price of $4.25. In addition, the Company incurred $2,994,606 of transaction related fees, representing the excess fair value of shares issued by Vireo US over the value of the net monetary assets of Vireo Health International. This was recognized as a recapitalization cost within Stockholders' equity.

On March 22, 2019, the Company issued 16,806 MVS shares at a value of $451.89 per share in connection with the closing of the Arizona Natural Remedies acquisition (refer to Note 3).

On March 26, 2019, the Company issued 6,721 MVS shares at a deemed issuance price of $465.75 per share in connection with the closing of the Silver Fox Management Services, LLC acquisition (refer to Note 3).

On March 29, 2019, the Company issued 30,325 MVS shares at a deemed issuance price of $431.79 per share in connection with the closing of the Mayflowers Botanicals acquisition (refer to Note 3). In addition, the Company issued 6,722 MVS shares at a deemed issuance price of $431.79 per share as a finders fee for the acquisition.

On June 4, 2019, the Company issued 1,665 MVS in connection with the conversion of the 3.0% convertible note.

Throughout the year, the Company converted 26,299 MVS Shares into SVS shares at the conversion ratio of 100 to 1.

Preferred Shares

On January 1, 2018, the Vireo U.S. converted from an LLC to a C Corporation and, as a result, became subject to corporate federal and state income taxes. On conversion to a C corporation, Vireo was authorized to issue 300,048,397 shares, including 225,036,298 common shares, and 75,012,099 preferred stock both of which have a par value of $0.0001 per share.

From Vireo U.S.'s inception to December 31, 2017, the Company was not subject to corporate federal and state income taxes since it was operating as a Limited Liability Company (LLC). On January 1, 2018, Vireo U.S. converted from an LLC to a C Company and, as a result, became subject to corporate federal and state income taxes. Vireo U.S.'s accumulated retained earnings of $4,225,000 was adjusted.

	Par Value		Authorized	Voting Rights
Series A Preferred Stock	$	0.001	Unlimited	
Series B Preferred Stock	$	0.001	Unlimited	
Series C Preferred Stock	$	0.001	Unlimited	
Series D Preferred Stock	$	0.001	Unlimited	

Prior to the RTO, all the Series A, B, C, D Preferred Stock were converted into common shares. Concurrently, the shareholders of Vireo exchanged their common shares of Vireo, will receive, Super Voting Shares, Subordinate Voting Shares or Multiple Voting Shares of the Corporation, as applicable and received, based on a ratio of 0.300048 Multiple Voting Shares or Super Voting Shares or 30.0048 Subordinate Voting Shares for every common share of Vireo.

19. Stock-Based Compensation

Stock Options

In January 2019, the Company adopted the 2019 Equity Incentive Plan under which the Company may grant incentive stock option, restricted shares, restricted share units, or other awards. Under the terms of the plan, a total of ten percent of the number of shares outstanding assuming conversion of all super voting and multiple voting shares to subordinate voting shares are permitted to be issued. The exercise price for incentive stock options issued under the plan will be set by the committee but will not be less 100% of the fair market value of the Company's shares on the date of grant. Incentive stock options have a maximum term of 10 years from the date of grant. The incentive stock options vest at the discretion of the Board.

Options granted under the equity incentive plan were valued using the Black-Scholes option pricing model with the following weighted average assumptions:

	For the Years Ended December 31,	
	2020	2019
Risk-Free Interest Rate	0.57	2.56
Expected Life of Options (years)	7.07	8.74
Expected Annualized Volatility	100.00%	100.00%
Expected Forfeiture Rate	-	-
Expected Dividend Yield	-	-

Stock option activity for the Company for the years ended December 31, 2020 and 2019 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Avg. Remaining Life
Balance, December 31, 2018	22,215,547	$ 0.29	8.25
Forfeitures	(225,040)	0.33	-
Granted	1,672,093	1.13	-
Balance, December 31, 2019	23,662,600	0.35	7.54
Forfeitures	(2,337,145)	0.65	-
Exercised	(495,067)	0.19	-
Granted	6,094,470	0.99	-
Options Outstanding at December 31, 2020	26,924,858	$ 0.47	7.00
Options Exercisable at December 31, 2020	18,347,543	0.32	6.10

During the years ended December 31, 2020 and 2019, the Company recognized $1,674,806 and $789,537 in share-based compensation relating to stock options, respectively. As of December 31, 2020, the total unrecognized compensation costs related to unvested stock options awards granted was $5,209,123. In addition, the weighted average period over which the unrecognized compensation expense is expected to be recognized is approximately 3.5 years. The total intrinsic value of stock options outstanding and exercisable as of December 31, 2020 was $27,211,816 and $21,276,975, respectively.

The Company does not estimate forfeiture rates when calculating compensation expense. The Company records forfeitures as they occur.

Warrants

Subordinate Voting Share (SVS) warrants entitle the holder to purchase one subordinate voting share of the Company. Multiple Voting Share (MVS) warrants entitle the holder to purchase one multiple voting share of the Company.

During the year ended December 31, 2019, the Company issued 763,111 SVS finders' warrants with a value of $1,723,741. The Company also issued 15,000,000 SVS compensation warrants with a value of $12,351,687. During the year ended December 31, 2019, the Company issued 13,583 MVS warrants and recorded $1,121,132 in share-based compensation in connection with the MVS warrants.

Warrants issued were valued using the Black-Scholes option pricing model with the following assumptions:

SVS Warrants	December 31, 2020	December 31, 2019
Risk-Free Interest Rate	N/A	1.74% - 2.31%
Expected Life of Options (years)	N/A	2.00 - 5.00
Expected Annualized Volatility	N/A	100%
Expected Forfeiture Rate	N/A	-
Expected Dividend Yield	N/A	-

MVS Warrants	December 31, 2020	December 31, 2019
Risk-Free Interest Rate	N/A	1.67% - 2.31%
Expected Life of Options (years)	N/A	2.00 - 5.00
Expected Annualized Volatility	N/A	60% - 100%
Expected Forfeiture Rate	N/A	-
Expected Dividend Yield	N/A	-

A summary of the warrants outstanding is as follows:

SVS Warrants	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life
Warrants outstanding at December 31, 2018	867,198	$ 1.50	2.09
Issued	15,763,111	2.39	-
Warrants outstanding at December 31, 2019	16,630,309	2.34	4.49
Expired	(867,198)	1.50	-
Warrants outstanding at December 31, 2020	15,763,111	$ 2.39	0.42
Warrants exercisable at December 31, 2020	15,763,111	$ 2.39	0.42

MVS Warrants	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life
Warrants outstanding at December 31, 2018	-	$ -	-
Issued	13,583	194.66	-
Warrants outstanding at December 31, 2019	13,583	194.66	2.73
Issued	-	-	-
Warrants outstanding at December 31, 2020	13,583	$ 194.66	1.64
Warrants exercisable at December 31, 2020	13,583	$ 194.66	1.64

During the year ended December 31, 2020, $10,981,157 (2019 - $1,392,628) in share-based compensation expense was recorded in connection with the SVS compensation warrants and $121,511 (2019 - $1,121,132) in share-based compensation was recorded in connection with the MVS warrants.

20. Commitments and Contingencies

Legal proceedings

In the normal course of business, the Company may become involved in legal disputes regarding various litigation matters. In the opinion of management, any potential liabilities resulting from such claims would not have a material effect on the financial statements.

Lease commitments

The Company leases various facilities, under non-cancelable finance and operating leases, which expire at various dates through June 2085.

21. General and Administrative Expenses

General and administrative expenses are comprised of the following items:

	Years Ended December 31,	
	2020	2019
Salaries and benefits	$ 12,657,679	$ 10,339,741
Professional fees	3,027,168	4,036,348
Insurance expenses	3,772,689	3,036,962
Other expenses	6,907,646	7,632,178
Total	$ 26,365,182	$ 25,045,229

22. Income Taxes

For financial reporting purposes, loss before income taxes includes the following components:

	Years Ended December 31,	
	2020	2019
United States	$ (14,152,194)	$ (56,893,312)
Total	$ (14,152,194)	$ (56,893,312)

The (recoveries) expenses for income taxes consists of:

	Year ended December 31,	
	2020	2019
Current:		
Federal	$ 6,307,000	$ 1,675,000
State	1,120,000	556,000
Total	7,427,000	2,231,000
Deferred:		
Federal	1,113,000	(65,000)
State	250,000	(1,580,000)
Total	1,363,000	(1,645,000)
Total	$ 8,790,000	$ 586,000

	Year ended December 31,	
	2020	2019
Loss before income taxes:	$ (14,152,194)	$ (56,893,312)
Income tax benefits at statutory rate	(2,996,351)	(11,947,596)
State Taxes	(1,426,834)	(5,689,331)
Non-deductible expenses	13,209,995	17,198,905
Stock based and other compensation	3,190	1,024,022
Income tax expense, net	$ 8,790,000	$ 586,000

The following table summarizes the components of deferred tax:

	2020	2019
Deferred assets		
Operating loss carryforwards - United States	$ 1,526,000	$ 590,000
Allowance for doubtful accounts	37,000	75,000
Accrued loyalty expense	-	65,000
Inventory reserve	175,000	240,000
Financing leases	385,000	220,000
Intangible assets	385,000	950,000
Share based compensation	24,000	150,000
Total Deferred tax assets	2,532,000	2,290,000
Less valuation allowance	(395,000)	-
Net deferred tax assets	2,137,000	2,290,000
Deferred tax liabilities		
Property and equipment	-	670,000
Related party management fee receivables	880,000	90,000
Note Receivable	1,100,000	-
Deferred loss sale leaseback	-	10,000
Total deferred tax liabilities	1,980,000	770,000
Net deferred asset/(tax liabilities)	$ 157,000	$ 1,520,000

At December 31, 2020, the Company had United States federal net operating loss carryforwards of approximately $1,050,000 that can be carried forward indefinitely, and state net operating loss carryforwards of approximately $11,880,000 that can be carried forward fifteen years and limited in annual use to 100% of the current year taxable income.

The Company recognizes the financial statement impact of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest impact that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company recognizes interest and, if applicable, penalties (not included in the “unrecognized tax benefits” table above) for any uncertain tax positions. Interest and penalties are recorded as a component of income tax expenses. As of December 31, 2020 and 2019, the Company had a cumulative balance of accrued interest and penalties on unrecognized tax positions of $0 and $0, respectively.

The Company’s federal and state income tax returns are subject to examination by income taxing authorities, generally for three years after the returns are filed. The Company is not currently under examination in any jurisdiction for any period. The Company believes it is no longer subject to income tax examinations for fiscal periods ended prior to 2017.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”) was signed into law in response to the COVID-19 pandemic. The CARES Act provides numerous tax provisions and stimulus measures, including temporary changes regarding the prior and future utilization of net operating losses, temporary changes to the prior and future limitations on interest deductions, and technical corrections from prior tax legislation for tax depreciation of certain qualified improvement property. The Company has evaluated the provisions of the CARES Act relating to income taxes which will not result in material impact on its financial statements.

23. Supplemental Cash Flow Information[1]

	Year End December 31, 2020	2019
Cash paid for interest	$ 5,861,204	$ 3,934,362
Cash paid for income taxes	370,327	1,404,845
Property and equipment included in accounts payable and accrued liabilities	1,946,722	-
Non-cash financing activities		
Conversion of 3% Convertible Note to MVS	-	725,090
Non-cash investing		
Acquisition of AZ Entities through issuance of MVS	-	7,594,463
Acquisition of Mayflower through issuance of MVS	-	15,996,524
Acquisition of Silverfox through issuance of MVS	-	3,303,297
Acquisition of Midwest Hemp through issuance of 2.76% Convertible Note	-	50,000
Acquisition of XAAS through issuance of 5.0% Convertible Note	-	900,000

(1) For supplemental cash flow information related to leases, refer to Note 10.

24. Financial Instruments

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, accounts receivable, and notes receivable. A small portion of cash is held on hand, from which management believes the risk of loss is remote. Receivables relate primarily to wholesale sales. The Company does not have significant credit risk with respect to customers. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments. The Company has been granted licenses pursuant to the laws of the states of Arizona, Massachusetts, Maryland, Minnesota, New Mexico, New York, Ohio, Pennsylvania, Puerto Rico and Rhode Island with respect to cultivating, processing, and/or distributing marijuana. Presently, this industry is illegal under United States federal law. The Company has, and intends, to adhere strictly to the state statutes in its operations.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of December 31, 2020, the Company's financial liabilities consist of accounts payable and accrued liabilities, debt, and convertible notes. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. Historically, the Company's main source of funding has been additional funding from shareholders. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity financing.

Legal Risk

Vireo U.S. operates in the United States. The United States federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811), which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. The United States Food and Drug Administration has not approved marijuana as a safe and effective drug for any indication. In the United States marijuana is largely regulated at the state level. State laws regulating cannabis are in direct conflict with the federal Controlled Substances Act, which makes cannabis use and possession federally illegal.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Company is not exposed to currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company currently does not carry variable interest-bearing debt. It is management's opinion that the Company is not exposed to significant interest rate risk.

25. Related Parties Transactions

As of December 31, 2020, and 2019, there were no amounts due from related parties.

During the year ended December 31, 2019 the Company acquired Midwest Hemp Research, LLC which was 50% owned by Kyle Kingsley, the Chief Executive Officer of the Company. As consideration for the acquisition, the Company issued a $25,000 convertible note to the CEO. During the year ended December 31, 2020, the Company completed the divestiture of Midwest Hemp Research, LLC. Refer to *Note 3* for more detail.

For the year ending December 31, 2020, and 2019, the Company paid a related party (Salo LLC owned by Amy Langer, a former member of the Board of Directors) for contract staffing expenses in the amount of $126,896 and $295,463.

As of December 31, 2020, certain directors and officers of the Company (Kyle Kingsley, Amber Shimpa, and Stephen Dahmer) own Ohio Medical Solutions, Inc. The Company has executed a management agreement and option to purchase Ohio Medical Solutions, Inc.

26. Subsequent Events

On January 5, 2021, the Company completed the acquisition of MJ Distributing, Inc, which holds licenses to cultivate and distribute, respectively, medical and adult-use cannabis in the state of Nevada. The Company issued 1,050,000 Subordinate Voting Shares to the seller's designees, and the convertible promissory notes from the original purchase agreement were cancelled.

On March 25, 2021, the Company entered into a credit agreement for a senior secured delayed draw term loan with an aggregate principal amount of up to $46,000,000 (the "**Credit Facility**"). Net of fees and closing costs, we received $23.5 million of the first tranche on March 25, 2021. Obligations under the Credit Facility are secured by substantially all the assets of the borrowers. The Credit Facility and related documents also provide for the payment of certain fees to the agent, including a closing fee equal to 3% of each loan advanced, and a 3.25% closing fee to the broker. The unpaid principal amounts outstanding under the Credit Facility bear interest at a rate of (a) 13.625% per annum payable monthly in cash, and (b) 2.75% per annum. The Credit Facility matures on March 31, 2024.

On March 25, 2021, in connection with closing the Credit Facility, Vireo issued (a) five year warrants to the agent to and each lender to purchase an aggregate of 2,803,984 Shares at an exercise price of CDN$3.50 per Share, and (b) a five year warrant to the broker to purchase 233,665 Shares at an exercise price of CDN$3.50 per Share. Each warrant provides customary anti-dilution provisions.

On March 31, 2021, as part of a settlement and release of claims regarding a dispute over certain post-termination terms under his employment agreement, we issued 7,110,381 subordinate voting shares to our former Executive Chairman, Bruce Linton, upon a cashless exercise of 10 million warrants that had an exercise price of $1.02 per share and issued him 889,519 subordinate voting shares pursuant to an exemption from registration under the Securities Act. We did not receive any proceeds in connection with the warrant exercise or issuance of shares. The shares issued pursuant to the warrant exercise are free of trading restrictions; the additional 889,519 shares are subject to a holding period expiring on August 1, 2021. He was previously issued 15 million warrants under his employment agreement. As part of the settlement, he surrendered all right, title, and interest in the remaining 5 million for cancellation.

In the first quarter of 2021 employee stock options were exercised for 3,130,343 Subordinate Voting Shares. Proceeds from these transactions were $966,166 in cash.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) are designed to ensure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the appropriate time periods, and that such information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure. We, under the supervisions of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2020 and, based on that evaluation, have concluded that the design and operation of our disclosure controls and procedures were effective as of such date.