	Twelve Months Ended December 31,		
	2020	2019	2018
Retail Revenue	$ 37,236,301	$ 24,350,022	$ 18,147,414
Wholesale Revenue	11,975,028	5,606,150	311,655
Total Revenues, net of discounts	$ 49,211,329	$ 29,956,172	$ 18,459,069
Cost of Goods Sold	32,083,608	22,619,892	9,519,433
Gross Profit	**$ 17,127,721**	**$ 7,336,280**	**$ 8,939,636**
Total Expenses	40,170,843	29,703,926	12,185,516
Other Income (Expense)	8,890,928	(34,525,666)	(2,475,085)
Operating Loss Before Provision for Income Taxes	**$ (14,152,194)**	**$ (56,893,312)**	**$ (5,720,965)**

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

You should read the following discussion and analysis of our financial condition and results of operations together with the financial information and the notes thereto included in Part II, Item 8 of this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report on Form 10-K, including information with respect to our plans and strategy for our business and related financing, includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or "forward-looking information" within the meaning of Canadian securities laws. These statements are often identified by the use of words such as "expect," "plan," "expected," "scheduled," "estimates," "estimated," "forecasts," "continue," "continued," "anticipate," "will," "expectations," "cannot," "could," "believe," "focused," "intention," "strategic," "future," "approach," "strategy," "efforts," "potential," "potentially," "possible," "may," "intend," "intended," "intent," "should," "might," "would," "achieve," "allowed to," "over time," "likely," "remain," "opportunities," "seeking," or the negative or plural of these words or similar expressions or variations. Such forward-looking statements and forward-looking information are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements or forward-looking information. Factors that could cause or contribute to such differences include, but are not limited to, those identified in this Annual Report on Form 10-K and those discussed in the section titled "Risk Factors" set forth in Part I, Item 1A of this Annual Report on Form 10-K and in our other SEC and Canadian public filings. In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Annual Report on Form 10-K and while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements. You should not rely upon forward-looking statements or forward-looking information as predictions of future events. Furthermore, such forward-looking statements or forward-looking information speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements or forward-looking information to reflect events or circumstances after the date of such statements.

Amounts are presented in United States dollars, except as otherwise indicated.

Overview of the Company

Vireo is a physician-led, science-focused cannabis company focused on building long-term, sustainable value by bringing the best of medicine, science, and engineering to the cannabis industry. With our core operations strategically located in five limited-license markets through our owned or operated, state-licensed subsidiaries, we cultivate and manufacture cannabis products and distribute these products through our growing network of Green Goods™ and other Vireo branded retail dispensaries as well as third-party dispensaries in the markets in which our subsidiaries hold operating licenses.

In addition to developing and maintaining cannabis businesses in its core limited-license jurisdictions, our team of scientists, engineers and attorneys are also focused on driving innovation and securing meaningful and protectable intellectual property. Through this dual-path approach to long-term value creation, we believe it enhances the potential for shareholder returns.

Resurgent Biosciences, Inc., a wholly-owned subsidiary of Vireo, is a non-plant-touching entity that was formed with the intent of commercializing our intellectual property portfolio. This portfolio includes two patents for harm reduction in tobacco products as well as many other patent-pending opportunities that we believe could have potential to create additional value for our shareholders through partnerships or other strategic alternatives.

While we are not currently focused on substantial capital investment or expansion outside of our core markets, we do own or effectively control additional non-core medical cannabis licenses or operations that may present opportunities for partnership or divestiture in the future.

Reverse Take Over (“RTO”) Transaction

On March 18, 2019, Vireo U.S. completed the RTO of Darien 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 owned 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’s 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 shareholders 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. subordinate voting shares, warrants, and options have been presented on a post-transaction, post-reverse split basis.

Operating Segments

We report our operating results in one business segment: the cultivation, production, and sale of cannabis. We cultivate, manufacture, and distribute cannabis products to third parties in wholesale markets and cultivate, manufacture, and sell cannabis products directly to approved patients in our owned or operated retail stores.

During the year ended December 31, 2020, the Company had operating revenue in seven states: Arizona, Maryland, Minnesota, New Mexico, New York, Ohio and Pennsylvania. Retail revenues were derived from sales in seventeen dispensaries throughout five states. It had one operational dispensary in Arizona, eight in Minnesota, two in New Mexico, four in New York, and two in Pennsylvania. Wholesale revenues were derived from sales of products to third parties in the states of Arizona, Maryland, New York, Ohio and Pennsylvania. During the year ended December 31, 2020, we divested our retail and wholesale interests in Pennsylvania.

Regulatory Jurisdictions

The following discussion of Vireo’s regulatory jurisdictions is as of December 31, 2020. For more information about regulation of the Company’s business both federally and at state and local levels, see the section titled “Business” in Part 1, Item 1 of this Annual Report on Form 10-K.

Four of our five core cannabis markets, consisting of New York, Minnesota, New Mexico, and Maryland each has the potential to enact adult-use legalization in the foreseeable future. When this change has occurred in several other state markets, many licensed operators have realized improved revenue growth, which affords Vireo’s management optimism that we will be able to drive financial performance improvements in the future if these events occur in some or all of above noted states. In Arizona, our fifth core market, the ballot initiative to legalize adult-use sales was approved by Arizona voters on November 3, 2020 and adult-use sales commenced in the first quarter of 2021.

In Minnesota, Vireo is one of only two licensed operators in the state, which has a population of approximately 5.6 million people. We currently operate eight retail dispensaries and one cultivation and processing facility of approximately 90,000 square feet. We recently purchased an option to buy 20 acres of land adjacent to our existing production facility to support future expansion as the Minnesota market develops. Additions to the state’s qualifying conditions for medical cannabis patients have contributed to increases in patient enrollment, and in 2020 the legislature granted Vireo four additional dispensary licenses, all of which commenced operations in the fourth quarter of 2020. These additional dispensaries, combined with the potential for the state to add flower to the list of allowed delivery methods, give optimism that the Minnesota market remains a strong near-term growth opportunity for the Company. Legislation allowing for the addition of the sale of flower in the existing medical cannabis program has been proposed in both the house and senate. Legislation to approve adult use in the state has also been proposed in the house of representatives.

In New York, Vireo was one of the original five licensed operators and is currently one of only 10 licensed operators in the state. We currently operate four retail dispensaries and one cultivation and processing facility of approximately 60,000 square feet. We also operate a home-delivery business in New York. While we believe the long-term opportunity in New York is substantial, recent performance has been impacted by neighboring states transitioning to recreational-use jurisdictions, as well as by increasing competition from other developing operators coupled with modest patient adoption growth in the program. New product introductions and the acceleration of wholesale revenue streams may contribute to improving profit margins in the future. We anticipate additional growth of our home delivery service. Adult-use legislation has been proposed in the state and we believe it has broad support from the legislature and the Governor.

In Maryland, we own one retail dispensary in Fredrick, that opened in March 2021, and operate a processing facility of 30,000 square feet. Our cultivation has moved to a 3-acre cultivation facility in Massey, MD, which will serve the retail dispensary as well our existing wholesale business. Wholesale revenues have grown, driven in part by new product offerings and increased market penetration.

In Arizona, we operate and control one retail dispensary and an outdoor cultivation facility with processing capability. We have completed construction of a 9-acre outdoor cultivation facility, which was fully operational in the fourth quarter of 2020. We are in the pre-development stages for an additional 8-acre outdoor cultivation facility, which we plan to have fully operational in the third quarter of 2021 pending approval from local regulators.

In New Mexico, we currently operate approximately 3,000 square feet of cultivation and have two operational retail dispensaries. We recently completed construction of a new 13,000 square foot hoop house cultivation facility, which is expected to begin operations in the second quarter of 2021, pending regulatory approval. The expansion is anticipated to support the opening of two additional retail dispensary locations early in the second quarter of 2021, pending regulatory approval.

In addition to these businesses, during 2020, we also incurred start-up expenses related to pre-revenue operations in non-core markets, including Massachusetts, Rhode Island, which was divested in the third quarter of 2020, and Puerto Rico. While these markets may offer future revenue opportunities, our recent decision to focus efforts and capital on our core markets resulted in changes to future expectations regarding the overall revenue and profitability of our consolidated operations. We may consider operationalization of these licenses in the future and are actively seeking opportunities in Massachusetts and Nevada.

COVID-19

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.

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

Revenue

Revenue for the year ended December 31, 2020 was $49,211,329, an increase of $19,255,157 or 64% compared to revenue of $29,956,172 for year ended December 31, 2019. The increase is primarily attributable to revenue contributions from the retail business in Minnesota of $6.1 million, the retail business in Pennsylvania of $3.3 million, the wholesale business in Maryland of $3.3 million, and the wholesale business in Arizona of $1.6 million. Key revenue drivers are increased market penetration of Vireo branded products in the Maryland and Arizona wholesale markets and increased patient demand in Minnesota, which is partially the result of an increase in the number of qualifying conditions, which helps contribute to growth in certified patient enrollments. The two retail dispensaries in Pennsylvania, opened in the fourth quarter of 2019, also contributed significantly to year over year growth.

Retail revenue for the year ended December 31, 2020 was $37,236,301, an increase of $12,886,279 or 53% compared to retail revenue of $24,350,022 for the year ended December 31, 2019 primarily due to revenue contributions from Minnesota and Pennsylvania.

Wholesale revenue for the year ended December 31, 2020 was $11,972,314, an increase of $6,366,164 compared to wholesale revenue of $5,606,150 for year ended December 31, 2019. The increase was primarily due to increased revenue contributions from Maryland and Arizona.

	Twelve Months Ended December 31, 2020	Twelve Months Ended December 31, 2019	$ Change	% Change
Retail:				
MN	$ 16,506,418	$ 10,359,342	$ 6,147,076	59%
NY	10,890,084	9,990,907	899,177	9%
AZ	4,018,613	2,722,531	1,296,082	48%
NM	2,349,826	1,085,332	1,264,494	117%
PA	3,471,360	191,910	3,279,450	1709%
Total Retail	**$ 37,236,301**	**$ 24,350,022**	**$ 12,886,279**	**53%**
Wholesale:				
AZ	$ 3,555,184	$ 1,908,521	$ 1,646,663	86%
MD	3,797,655	547,653	3,250,002	593%
NY	630,277	280,570	349,707	125%
OH	467,331	71,960	395,371	549%
PA	3,521,867	2,797,446	724,421	26%
Total Wholesale	**$ 11,972,314**	**$ 5,606,150**	**$ 6,366,164**	**114%**
Other:				
RI Royalty	$ 2,714	$ -	$ 2,714	N.M.
Total Revenue	**$ 49,211,329**	**$ 29,956,172**	**$ 19,255,157**	**64%**
PA Revenue	**$ (6,993,227)**	**$ (2,989,356)**	**$ (4,003,871)**	**134%**
Total Revenue excluding PA	**$ 42,218,102**	**$ 26,966,816**	**$ 15,251,286**	**57%**
N.M. Not Meaningful				

Cost of Goods Sold and Gross Profit

Cost of goods sold are determined from costs related to the cultivation and processing of cannabis and cannabis-derived products as well as the cost of finished goods inventory purchased from third parties.

Cost of goods sold for the year ended December 31, 2020 was $32,083,608, an increase of $9,463,716 compared to the year ended December 31, 2019 of $22,619,892, driven most significantly by the increase in retail sales and patient demand in Pennsylvania and Minnesota, and the increase in wholesale sales in Maryland and Arizona.

Gross profit for the year ended December 31, 2020 was $17,127,721, representing a gross margin of 35%. This is compared to gross profit for the year ended December 31, 2019 of $7,336,280 or a 24% gross margin. The increase in margin was driven by higher throughput across all markets decreasing fixed cost per unit. This was especially true in the Maryland and Pennsylvania wholesale markets, which were not operating at full capacity in 2019. 2020 Maryland and Pennsylvania wholesale gross profit increased approximately $1.3 million and $1.1 million respectively relative to 2019. Additionally, the Minnesota and Pennsylvania retail market saw gross profit expansion of approximately $5.6 million and $1.1 million, respectively, due to increased sales driven by increased qualifying conditions and patient enrollments.

Total Expenses

Total expenses for the year ended December 31, 2020 were $40,170,843, an increase of $10,466,917 compared to total expenses of $29,703,926 for the year ended December 31, 2019. The increase in total expenses was attributable to an increase in salaries and wages, professional fees, and general and administrative expenses of $1.3 million, including $630,282 in professional fees incurred as part of the one-time transition from an IFRS basis of accounting to a GAAP basis of accounting, and an increase in share-based compensation of $9.5 million. The increase in salaries and wages, and general and administrative expenses was driven by significant operational buildout in existing markets, and the increase in share-based compensation was driven by the issuance of various compensation warrants in 2019.

Operating Loss before Income Taxes

Operating loss before other income (expense) and provision for income taxes for the year ended December 31, 2020 was $(23,043,122), a decrease of $675,476 compared to operating income before other income (expense) and provision for income taxes of $(22,367,646) for the year ended December 31, 2019.

Total Other Income (Expense)

Total other income for the year ended December 31, 2020 was $8,890,928, an increase of $43,416,594 compared to other expense of $(34,525,666) for the year ended December 31, 2019. The increase in other income is primarily attributable to the 2019 intangible asset write-offs of $28,264,850 to reflect changing market conditions, the 2020 gain on the divestitures of the various subsidiaries of $20.3 million, partially offset by the loss on derivative liability of $6.3 million. The impairment of intangible assets resulted from our view of changing industry and market circumstances, primarily in non-core markets.

Provision for Income Taxes

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the year ended December 31, 2020, Federal and State income tax expense totaled $8,790,000 compared to a tax expense of $586,000 for the year ended December 31, 2019. This expense is significantly impacted by the $20.3 million gain affiliated with the divestiture of various subsidiaries.

The Year ended December 31, 2019 Compared to the Year ended December 31, 2018

Revenue

Revenue for the year ended December 31, 2019 was $29,956,172, an increase of $11,497,103 or 62% compared to revenue of $18,459,069 for year ended December 31, 2018. The increase was primarily attributable to revenue contributions from the retail business in Minnesota of $2.5 million, the wholesale business in Pennsylvania of $2.5 million, and the acquisitions in Arizona and New Mexico during the first quarter 2019, which contributed to a revenue increase of $5.7 million. Key revenue drivers were increased market penetration of Vireo branded products in the Pennsylvania wholesale market and increased patient demand in Minnesota, which is partially the result of an increase in the number of qualifying conditions, which helped contribute to growth in certified patient enrollments.

Retail revenue for the year ended December 31, 2019 was $24,350,022, an increase of $6,202,608 or 34% compared to retail revenue of $18,147,414 for the year ended December 31, 2018 primarily due to revenue contributions from Minnesota and acquisitions in Arizona and New Mexico during the first quarter 2019.

Wholesale revenue for the year ended December 31, 2019 was $5,606,150, an increase of $5,294,495 compared to wholesale revenue of $311,655 for year ended December 31, 2018 due to commencement of Pennsylvania wholesale operations in the third quarter of 2018, Maryland wholesale operations in the first quarter of 2019, Ohio wholesale operations in the third quarter of 2019 and the acquisitions in Arizona and New Mexico in the first quarter of 2019.

	Twelve Months Ended December 31,			
	2019	**2018**	**$ Change**	**% Change**
Retail:				
MN	$ 10,359,342	$ 7,837,934	$ 2,521,408	32%
NY	9,990,907	10,309,480	(318,573)	-3%
AZ	2,722,531	-	2,722,531	N/A
NM	1,085,332	-	1,085,332	N/A
PA	191,910	-	191,910	N/A
Total Retail	**$ 24,350,022**	**$ 18,147,414**	**$ 6,202,608**	**34%**
Wholesale:				
PA	$ 2,797,446	$ 311,655	$ 2,485,791	798%
AZ	1,908,521	-	1,908,521	N/A
MD	547,653	-	547,653	N/A
NY	280,570	-	280,570	N/A
OH	71,960	-	71,960	N/A
Total Wholesale	**$ 5,606,150**	**$ 311,655**	**$ 5,294,495**	**1699%**
Total	**$ 29,956,172**	**$ 18,459,069**	**$ 11,497,103**	**62%**

Cost of Goods Sold and Gross Profit

Cost of goods sold is determined from costs related to the cultivation and processing of cannabis and cannabis-derived products.

Cost of goods sold for the year ended December 31, 2019 was $22,619,892, an increase of $13,100,459 compared to the year ended December 31, 2018 of $9,519,433, driven most significantly by the increase in sales and patient demand in New York and Minnesota, commencement of operations in Pennsylvania in the third quarter of 2018 and the acquisitions in Arizona and New Mexico during the first quarter of 2019. The Arizona and New Mexico acquisitions accounted for approximately $5 million of the increase in cost of goods sold.

Gross profit for the year ended December 31, 2019 was $7,336,280, representing a gross margin on the sale of cannabis-derived products of 24%. This is compared to gross profit for the year ended December 31, 2018 of $8,939,636 or a 48% gross margin.

The decrease in margin was driven by the acquisition of Arizona Natural Remedies in the first quarter of 2019, and expansion of the Maryland and Pennsylvania markets, which did not generate material revenue or cost of goods sold in 2018. Arizona, Maryland, and Pennsylvania had gross margins of 4%, -182%, and -53%, respectively, driven by operational buildouts in 2019 that did not contribute to efficiencies in 2019, and the significant wholesale component in these markets.

Total Expenses

Total expenses for the year ended December 31, 2019 were $29,703,926, an increase of $17,518,410 compared to total expenses of $12,185,516 for the year ended December 31, 2018. The increase in total expenses was attributable to an increase in salaries and wages, professional fees, and general and administrative expenses of $16,070,968 and an increase in share-based compensation of $1,230,591. The increase in salaries and wages, and general and administrative expenses was driven by significant operational buildout in existing markets and acquisitions in Arizona and New Mexico in the first quarter of 2019 which drove an increase in operating expenses of approximately $1 million. The increase in share-based compensation was driven by the issuance of various compensation warrants in 2019. Included in the increased expenses are an estimated $3,265,000 in start-up expenses related to buildout and pre-revenue operations in certain markets.

Operating Loss before Income Taxes

Operating loss before other income (expense) and provision for income taxes for the year ended December 31, 2019 was $(22,367,646), a decrease of $19,121,766 compared to operating income before other income (expense) and provision for income taxes of $(3,245,880) for the year ended December 31, 2018.

Total Other Income (Expense)

Total other expenses for the year ended December 31, 2019 were $34,525,666, an increase of $32,050,581 compared to $2,475,085 for the year ended December 31, 2018. Increase in other expenses was primarily attributable to intangible asset write-offs of $28,264,850 to reflect changing market conditions, interest expense from the capital leases of the cultivation and processing facilities in Minnesota, New York, Ohio, Pennsylvania and Puerto Rico; and the costs related to acquisitions in Puerto Rico, and Rhode Island. The impairment of intangible assets resulted from our view of changing industry and market circumstances, primarily in non-core markets.

Provision for Income Taxes

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the year ended December 31, 2019, Federal and State income tax expense totaled $586,000 compared to a tax expense of $2,490,000 for the year ended December 31, 2018.

Non-GAAP Measures

EBITDA and Adjusted EBITDA are non-GAAP measures and do not have standardized definitions under GAAP. The following information provides reconciliations of the supplemental non-GAAP financial measures presented herein to the most directly comparable financial measures calculated and presented in accordance with GAAP. The Company has provided the non-GAAP financial measures, which are not calculated or presented in accordance with GAAP, as supplemental information and in addition to the financial measures that are calculated and presented in accordance with GAAP. These supplemental non-GAAP financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believe that the supplemental non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. These supplemental non-GAAP financial measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented.

Our calculation of EBITDA and Adjusted EBITDA now also excludes "depreciation included in the cost of goods sold." We believe excluding these additional items better represents our EBITDA by excluding all depreciation.

	Twelve Months Ended December 31,	
	2020	**2019**
Net income (loss)	$ (22,942,194)	$ (57,479,312)
Interest expense, net	5,095,848	4,460,331
Income taxes	8,790,000	586,000
Depreciation & Amortization	1,028,187	1,355,400
Depreciation included in cost of goods sold	2,067,991	1,755,809
EBITDA (non-GAAP)	$ (5,960,168)	$ (49,321,772)
Derivative Loss	6,260,480	-
Inventory adjustment	974,384	865,405
Share-based compensation	12,777,474	3,303,297
Severance Expense	339,997	-
Impairment of intangible assets and goodwill	-	28,264,850
Gain on sale of discontinued operations	(20,253,177)	-
Costs associated with the IFRS to GAAP transition	630,282	-
Adjusted EBITDA (non-GAAP)	$ (5,230,728)	$ (16,888,220)

Drivers of Results of Operations (For the years ended December 31, 2020, 2019, and 2018)

Revenue

We derived our revenue from cultivating, processing, and distributing cannabis products through our seventeen dispensaries in five states and our wholesale sales to third parties in five states. For the twelve months ended December 31, 2020, 76% of the revenue was generated from retail dispensaries and 24% from wholesale business. For the year ended December 31, 2019, 81% of the revenue was generated from retail business and 19% from wholesale business. Wholesale revenues did not begin until the end of the third quarter of 2018. For the year ended December 31, 2018, 98% of the revenue was generated from retail dispensaries.

For the year ended December 31, 2020, Minnesota operations contributed approximately 34% of revenues, New York contributed 23%, Arizona contributed 15%, Pennsylvania contributed 14%, Maryland contributed 8%, New Mexico contributed 5%, and Ohio contributed 1%.

For the year ended December 31, 2019, New York operations contributed approximately 34% of revenues, while Minnesota contributed 35%, Arizona contributed 15%, Pennsylvania contributed 10%, Maryland contributed 2%, and New Mexico contributed 4%.

For the year ended December 31, 2018, New York operations contributed approximately 56% of revenues, Minnesota contributed approximately 42%, and Pennsylvania contributed 2%.

Gross Profit

Gross profit reflects total net revenue less cost of goods sold. Cost of goods sold represents the costs attributable to producing finished goods, which includes direct materials, labor, and certain indirect costs such as depreciation, insurance and utilities. Cannabis costs are affected by various state regulations that limit the sourcing and procurement of cannabis product, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes.

During the year ended December 31, 2020, we continued to focus on the profitability of our operations in its core markets of Minnesota, New York, Maryland, Arizona and New Mexico.

Our current production capacity has not been fully realized and we expect future gross profits to increase with revenue growth reflective of higher demand, increased product output and new product development. However, we expect gradual price compression as markets mature that could place downward pressure on our retail and wholesale gross margins.

Total Expenses

Total expenses other than the cost of goods sold consist of selling costs to support customer relationships, marketing, and branding activities. It also includes a significant investment in the corporate infrastructure required to support ongoing business.

Selling costs generally correlate to revenue. As a percentage of sales, we expect selling costs to remain relatively flat in our more established operational markets (Minnesota and New York) and decrease in developing markets as business continues to grow (Arizona, New Mexico, and Maryland). The increase is expected to be driven primarily by the growth of retail and wholesale channels to sustainable market share.

General and administrative expenses also include costs incurred at the corporate offices, primarily related to personnel costs, including salaries, benefits, and other professional service costs, as well as corporate insurance, legal and professional fees associated with being a publicly traded company. We expect this spend to decrease as a percentage of revenue as sales continue to ramp in all markets. We anticipate that share-based compensation expenses will continue to persist in order to recruit and retain competitive talent.

In 2021, we implemented several strategic initiatives to optimize our cost structure and operating model. The objectives of these initiatives are to build sustainable value with changing market conditions and to improve our operating performance. These initiatives included closing the New York corporate office, the related termination of office leases, and the elimination of certain other costs. Further savings are anticipated in the first quarter of 2021 as we did not renew our office space lease in Minneapolis, which expired February 28, 2021.

Liquidity and Capital Resources

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.

The Company is an early-stage growth company. It is generating cash from sales and is deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are being utilized for acquisitions in the medical and adult use cannabis markets, for capital expenditures and improvements in existing facilities, product development and marketing, as well as customer, supplier and investor and industry relations.

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

3% Convertible Note

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

2.76% Convertible Note

On January 1, 2019, we issued a convertible note with a face value of $50,000 in connection with the Midwest Hemp Research, LLC acquisition (refer to Note 3 of the notes to the Company's Consolidated Financial Statements). The convertible note had an interest rate of 2.76% per annum, payable monthly commencing January 1, 2019 and continuing on the first of each month thereafter. These notes were cancelled in July of 2020 in connection with our disposition of Midwest Hemp Research, LLC.

5% Convertible Note

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

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 thereafter. Additional interest may accrue on the convertible notes 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 a general unsecured obligation of the Company and ranks senior in right of payment to all of our indebtedness that is expressly subordinated in right of payment to the notes; equal in right of payment with any of our unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our 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 our current or future subsidiaries.

The note includes customary covenants and sets forth certain events of default after which the convertible notes 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 a conversion rate equal to the price per share that the Company's capital stock is valued at in the reverse merger of $4.25 per subordinate voting 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 common shares, based on the $900,000 aggregate principal amount of convertible notes outstanding as of December 31, 2020.

As of December 31, 2020, we were in compliance with all the covenants set forth under the 5% convertible note.

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

Cash Used in Operating Activities

Net cash used in operating activities was $10.9 million for the year ended December 31, 2020, an improvement of $16.0 million as compared to the year ended December 31, 2019. The decrease is primarily attributed to our revenue growth, operational efficiencies, and the gain on the sale of various subsidiaries.

Cash Flow from Investing Activities

Net cash provided by investing activities was $12.9 million for the year ended December 31, 2020, compared to net cash used of $21.2 million for the year ended December 31, 2019. The increase in cash flow is primarily attributable to cash proceeds received from the divesture of various subsidiaries of $21.1 million and the first quarter of 2019 cash used of $10.2 million for the purchases of the equity interest of Elephant Head Farms, LLC and Retail Management Associates, LLC in Arizona and $1.9 million in cash used for the asset purchase of Silver Fox Management Services LLC in New Mexico.

Cash Flow from Financing Activities

Net cash provided by financing activities was $15.9 million for the year ended December 31, 2020, a decrease of $31.9 million as compared to the year ended December 31, 2019. The decrease was principally due to the receipt of $48.2 million in proceeds from the RTO and other private placements during the three months ended March 31, 2019. In addition, in March 2020, we closed the first tranche of a non-brokered private placement and issued 13,651,574 units at a price of C$ 0.77 per unit (each unit comprised of one Subordinate Voting Share and a warrant to purchase one Subordinate Voting Share) for net proceeds of $7,613,490, and in November 2020 we forced the exercise of these warrants issued in a non-brokered private placement, resulting in proceeds of $9.9 million.

Lease Transactions

During the years ended December 31, 2019 and 2020, we entered into lease agreements for the use of buildings used in cultivation, production and sales of cannabis products in Arizona, Maryland, Minnesota, New Mexico, New York, Ohio, Pennsylvania, and Puerto Rico.

The lease agreements for all of retail space used for our dispensary operations are with third-party landlords and remaining duration ranges from 1 to 6 years. These agreements are short-term facility leases that require the Company to make monthly rent payments as well as funding common area costs, utilities and maintenance. In some cases, we have received Tenant Improvement funds to assist in the buildout of the space to meet our operating needs. As of December 31, 2020, the Company had 15 retail locations secured under these agreements.

We have also entered into sale and leaseback arrangements for our cultivation and processing facilities in Minnesota, New York, and Ohio with a special-purpose real estate investment trust. These leases are long-term agreements that provide, among other things, funds to make certain improvements to the property that will significantly enhance production capacity and operational efficiency of the facility.

Excluding any contracts under one year in duration, the future minimum lease payments (principal and interest) on all our 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

Outstanding Share Data

As of March 22, 2021, Vireo had 64,703,635 shares issued and outstanding, consisting of the following:

(a) Subordinate Voting Shares

64,173,402 shares issued and outstanding. The holders of Subordinate Voting Shares are entitled to receive dividends which may be declared from time to time and are entitled to one vote per share at all shareholder meetings. All Subordinate Voting Shares are ranked equally with regards to the Company's residual assets. The Company is authorized to issue an unlimited number of no-par value Subordinate Voting Shares.

(b) Multiple Voting Shares

464,822 shares issued and outstanding. The holders of Multiple Voting Shares are entitled to one hundred votes per share at all shareholder meetings. Each Multiple Voting Share is exchangeable for one hundred Subordinate Voting Shares. The Company is authorized to issue an unlimited number of Multiple Voting Shares.

(c) Super Voting Shares

65,411 shares issued and outstanding. The holders of Super Voting Shares are entitled to one thousand votes per share at all shareholder meetings. Each Super Voting Share is exchangeable for one hundred Subordinate Voting Shares. The Company is authorized to issue an unlimited number of Super Voting Shares.

Options, Warrants, and Convertible Promissory Notes

As of December 31, 2020, we had 26,924,858 employee stock options outstanding, as well as 15,776,694 advisory and compensation warrants related to financing activities, and $900,000 outstanding in convertible promissory notes related to recent acquisitions.

Off-Balance Sheet Arrangements

As of the date of this filing, we do not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on our results of operations or financial condition, including, and without limitation, such considerations as liquidity and capital resources.

Outlook

We anticipate growth investments made in 2020 and the continued execution of our core market strategy will yield organic revenue growth for the foreseeable future. Stronger revenue growth, coupled with expectations for reduced SG&A expenses as a percentage of sales, should substantially reduce the cash outflows from existing operations throughout 2021. Furthermore, recent efforts to scale production and expand our retail dispensary footprint could help drive improved financial performance through 2022.

We remain focused on the prudent deployment of capital into what we believe are the highest yield opportunities and achieving free cash flow from operations. We also are focused on driving margin expansion through operating efficiencies and greater economies of scale, with the intention of becoming one of the lowest-cost producers in each of our operational markets. We have taken a strategic approach to facility site selection and primarily pursue non-land-locked opportunities that allow for significant future expansion. Our recently completed nine-acre shade house in Arizona, three-acre expansion of our cultivation facility in Maryland, and recently acquired option to purchase an additional 96 acres in New York demonstrate our large-scale approach to production.

We anticipate making further investments in capital expenditures to improve scale with additional facility build outs during 2021. Specifically, we expect to begin incremental expansion projects of our cultivation facilities in Arizona and Maryland during the second quarter of 2021. In Arizona, we expect to invest approximately $3.0 million for the development of a dry-flower processing facility and a second nine-acre shade house adjacent to our existing operations, bringing the total size of our cultivation facilities in the state to approximately 18 acres. In Maryland, we expect to invest approximately $5.8 million for the development of an additional 75,000 sq. ft. of cultivation capacity at our existing 110,000 sq. ft. facility in the town of Massey. We expect both projects to be complete before the end of the third quarter of 2021.

Our retail strategy is focused on the growth of our retail footprint and ongoing efforts to rebrand all our stores to our Green Goods™ retail concept. We opened four new stores in Minnesota in fiscal year 2020, one new store in Maryland in March of 2021, and expect to open two additional stores in New Mexico during the second quarter of 2021. The rebranding of our retail stores in New York to Green Goods™, including our cannabis superstore in Queens, will continue throughout 2021, prior to the potential implementation of adult-use legislation in the state of New York.

In addition to the potential for adult-use legislation in New York, there is also potential for favorable regulatory developments in our other core markets. Following the recent enactment of the adult-use program in Arizona, our markets in Maryland and New Mexico could also potentially pass adult-use legislation this year, and there is potential for the addition of raw cannabis flower to the medical program in Minnesota. Each of these potential outcomes could serve as significant revenue growth catalyst for our business.

Summary of Significant Accounting Policies

The critical accounting estimates, assumptions, and judgments that we believe to have the most significant impact on our consolidated financial statements are described below. Note 2, "Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K describes the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

Use of estimates and significant judgments

The preparation of our 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 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. We believe that the estimates, judgments, and assumptions used to determine certain amounts that affect the financial statements are reasonable, based on information available at the time they are made. To the extent there are differences between these estimates and actual results, our consolidated financial statements may be materially affected.

Revenue Recognition

We recognize revenue as earned when the following four criteria have been met: (i) when persuasive evidence of an arrangement exists, (ii) the product has been delivered to a customer, (iii) the sales price is fixed or determinable, and (iv) collection is reasonably assured. Revenue is recognized net of sales incentives and returns, after discounts for the assurance program, veterans coverage program and compassionate programs.

Direct-to-patient sales are recognized when the products are shipped to the customers. Bulk and adult-use sales under wholesale agreements are recognized based on the shipping terms of the agreements. Export sales under pharmaceutical distribution and pharmacy supply agreements are recognized when products are delivered to the end customers or patients.

Cost of sales

Cost of sales represents costs directly related to manufacturing and distribution of our 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. We recognize the cost of sales as the associated revenues are recognized.

Inventory

Inventory is comprised of non-cannabis, finished goods and work-in-progress. 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, we perform an assessment of inventory and records write-downs for excess and obsolete inventories based on our estimated forecast of product demand, production requirements, market conditions, regulatory environment, and spoilage. Factors considered in the determination of obsolescence include slow-moving or non-marketable items. Actual inventory losses may differ from management's estimates and such differences could be material our consolidated balance sheets, statements of net loss and comprehensive loss and statements of cash flows. In calculating the value of the inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis plant up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields of the cannabis plant. In calculating final inventory values, management is required to determine an estimated fail rate and compare the inventory cost to estimated net realizable value. If the assumptions around future demand for our inventory are more optimistic than actual future results, then the excess and obsolete inventory provision may not be sufficient, resulting in our inventory being valued in excess of its net realizable value.

Assessing Recoverability of long-lived assets

We review 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. 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. 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**"). 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. 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If impairment indicators exist and are not identified, or judgment and assumptions used in assessing the recoverable amount change, the carrying value of long-lived assets can exceed the recoverable amount.

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. An impairment charge is recorded if the carrying value exceeds the fair value. If the judgments relating to the qualitative or quantitative assessments performed differ from actual results, or if assumptions are different, the values of the indefinite life intangible assets and goodwill can differ from the amounts recorded.

Estimating the fair value of Stock-based compensation

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. The exercise price for incentive stock options issued under the plan will be set by the committee (as defined under the plan) but will not be less 100% of the fair market value of the Company's shares on the date of grant. 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. The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option pricing model. Estimates in our stock-based compensation valuations are highly complex and subjective. 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 common 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. Stock options have a maximum term of 10 years from the date of grant. The stock options vest at the discretion of the Board. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.

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.

For performance-based stock options and RSUs, the Company records compensation expense over the estimated service period adjusted for a probability factor of achieving the performance-based milestones. At each reporting date, the Company assesses the probability factor and records compensation expense accordingly, net of estimated forfeitures.

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.

Assessing the realizability of deferred tax assets

The Company uses the asset and 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.

Recently Issued Accounting Standards

For a discussion of recent accounting pronouncements, please see Note 2, Summary of Significant Accounting Policies to our financial statements included elsewhere in this prospectus.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, we are not required to provide this information.