

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VIREO HEALTH INTERNATIONAL, INC. CONSOLIDATED BALANCE SHEETS (In U.S Dollars, unaudited and condensed)

| | March 31, 2021 | December 31, 2020 |
|--|-----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 40,561,051 | \$ 25,513,180 |
| Restricted cash | — | 1,592,500 |
| Accounts receivable | 867,593 | 696,994 |
| Inventory | 14,532,336 | 12,644,895 |
| Prepayments and other current assets | 2,458,295 | 1,552,278 |
| Notes receivable | 198,471 | 293,700 |
| Deferred acquisition costs | — | 28,136 |
| Assets Held for Sale | — | 4,596,445 |
| Deferred financing costs | — | 120,266 |
| Total current assets | 58,617,746 | 47,038,394 |
| Property and equipment, net | 35,923,904 | 30,566,259 |
| Operating lease, right-of-use asset | 8,833,728 | 8,163,844 |
| Notes receivable, long-term | 3,750,000 | 3,750,000 |
| Intangible assets, net | 11,388,112 | 8,409,419 |
| Goodwill | 3,132,491 | 3,132,491 |
| Deposits | 1,413,719 | 1,412,124 |
| Deferred tax assets | 392,000 | 157,000 |
| Total assets | \$ 123,451,700 | \$ 102,629,531 |
| Liabilities | | |
| Current liabilities | | |
| Accounts Payable and Accrued liabilities | 15,675,443 | 13,477,303 |
| Right of use liability | 1,197,597 | 857,294 |
| Convertible notes, net of issuance costs | 900,000 | 900,000 |
| Long-Term debt, current portion | 1,110,000 | 1,110,000 |
| Liabilities held for sale | — | 3,595,301 |
| Warrant Liability | 5,237,230 | — |
| Total current liabilities | 24,120,270 | 19,939,898 |
| Right-of-use liability | 21,479,700 | 20,343,063 |
| Long-Term debt | 17,646,501 | — |
| Total liabilities | \$ 63,246,471 | \$ 40,282,961 |
| Commitments and contingencies (refer to Note 20) | | |
| Stockholders' equity | | |
| Subordinate Voting Shares (\$- par value, unlimited shares authorized; 72,660,602 shares issued and outstanding) | — | — |
| Multiple Voting Shares (\$- par value, unlimited shares authorized; 459,950 shares issued and outstanding) | — | — |
| Super Voting Shares (\$- par value; unlimited shares authorized; 65,411 shares issued and outstanding, respectively) | — | — |
| Additional Paid in Capital | 168,924,845 | 164,079,614 |
| Accumulated deficit | (108,719,616) | (101,733,044) |
| Total stockholders' equity | \$ 60,205,229 | \$ 62,346,570 |
| Total liabilities and stockholders' equity | \$ 123,451,700 | \$ 102,629,531 |

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

VIREO HEALTH INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
(In U.S. Dollars, unaudited and condensed)

| | Three Months Ended March 31, | |
|--|---------------------------------|---------------|
| | 2021 | 2020 |
| Revenue | \$ 13,189,889 | \$ 12,118,567 |
| Cost of sales | | |
| Product costs | 7,506,048 | 8,701,653 |
| Inventory valuation adjustments | 68,000 | 139,008 |
| Gross profit | 5,615,841 | 3,277,906 |
| Operating expenses: | | |
| Selling, general and administrative | 8,035,991 | 6,877,125 |
| Stock-based compensation expenses | 2,314,575 | 2,735,938 |
| Depreciation | 171,562 | 2,966 |
| Amortization | 206,443 | 154,190 |
| Total operating expenses | 10,728,571 | 9,770,219 |
| Loss from operations | (5,112,730) | (6,492,313) |
| Other income (expense): | | |
| Gain on disposal of assets held for sale | 437,107 | — |
| Derivative gain | 158,529 | 1,325,928 |
| Interest expenses, net | (1,026,146) | (1,450,264) |
| Other income (expenses) | 56,668 | (469,272) |
| Other expenses, net | (373,842) | (593,608) |
| Loss before income taxes | (5,486,572) | (7,085,921) |
| Current income tax expenses | (1,735,000) | (505,100) |
| Deferred income tax recoveries | 235,000 | 78,000 |
| Net loss and comprehensive loss | (6,986,572) | (7,513,021) |
| Net loss per share - basic and diluted | \$ (0.06) | \$ (0.08) |
| Weighted average shares used in computation of net loss per share - basic and diluted | 116,103,635 | 88,519,845 |

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VIREO HEALTH INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In U.S. Dollars, unaudited and condensed)

| | Common Stock | | | | | | Additional Paid- in Capital | Accumulated Deficit | Total Stockholders' Equity |
|---|-------------------|-------------|----------------|-------------|---------------------|-------------|--------------------------------|------------------------|----------------------------------|
| | SVS | | MVS | | Super Voting Shares | | | | |
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| 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 |
| Stock-based compensation | — | — | — | — | — | — | 2,735,938 | — | 2,735,938 |
| Net loss | — | — | — | — | — | — | — | (7,513,021) | (7,513,021) |
| Balance at March 31, 2020 | <u>37,335,985</u> | <u>\$ —</u> | <u>549,928</u> | <u>\$ —</u> | <u>65,411</u> | <u>\$ —</u> | <u>\$ 134,271,022</u> | <u>\$ (86,303,871)</u> | <u>\$ 47,967,151</u> |
| Balance, January 1, 2021 | 51,062,559 | — | 554,128 | — | 65,411 | — | \$ 164,079,614 | \$(101,733,044) | \$ 62,346,570 |
| Conversion of MVS shares | 9,417,700 | — | (94,178) | — | — | — | — | — | — |
| Shares issued in Nevada acquisition | 1,050,000 | — | — | — | — | — | 1,564,500 | — | 1,564,500 |
| Shares issued in legal settlement | 889,519 | — | — | — | — | — | 1,627,820 | — | 1,627,820 |
| Options exercised | 3,130,343 | — | — | — | — | — | 966,156 | — | 966,156 |
| Warrants exercised | 7,110,481 | — | — | — | — | — | — | — | — |
| Stock-based compensation | — | — | — | — | — | — | 686,755 | — | 686,755 |
| Net Loss | — | — | — | — | — | — | — | (6,986,572) | (6,986,572) |
| Balance at March 31, 2021 | <u>72,660,602</u> | <u>—</u> | <u>459,950</u> | <u>—</u> | <u>65,411</u> | <u>—</u> | <u>168,924,845</u> | <u>(108,719,616)</u> | <u>60,205,229</u> |

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

VIREO HEALTH INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. Dollars, except for per share data, unaudited and condensed)

| | Three Months Ended | |
|---|---------------------------|-----------------------|
| | March 31, | |
| | 2021 | 2020 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (6,986,572) | \$ (7,513,021) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Inventory valuation adjustments | 68,000 | 139,009 |
| Depreciation | 171,562 | 2,966 |
| Depreciation capitalized into inventory | 508,358 | 474,903 |
| Non-cash operating lease expense | 286,296 | 297,406 |
| Amortization of intangible assets | 206,443 | 154,190 |
| Share-based payments | 2,314,575 | 2,735,938 |
| Deferred income tax | (235,000) | (78,000) |
| Deferred Gain/Loss Sale Leaseback | — | 30,481 |
| Accretion | 91,507 | 149,309 |
| Loss on Sale of Property and Equipment | — | 13,800 |
| Derivative Loss | (158,529) | (1,325,928) |
| Gain on disposal of OMS | (437,107) | — |
| Change in operating assets and liabilities: | | |
| Accounts Receivable | (52,521) | 166,751 |
| Prepaid expenses | (886,714) | 1,133,567 |
| Inventory | (1,875,784) | (385,647) |
| Accounts payable and accrued liabilities | 1,885,815 | 1,270,264 |
| Change in assets and liabilities held for sale | 124,843 | — |
| Net cash used in operating activities | <u>\$ (4,974,828)</u> | <u>\$ (2,734,012)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| PP&E Additions | \$ (4,922,251) | \$ (506,336) |
| Proceeds from sale of OMS net of cash | 1,150,000 | — |
| Deposits | (1,595) | 25,000 |
| Net cash provided by (used in) investing activities | <u>\$ (3,773,846)</u> | <u>\$ (481,336)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of shares | \$ — | \$ 7,613,490 |
| Deferred financing costs | (865,769) | — |
| Proceeds from long-term debt | 24,028,295 | — |
| Proceeds from option exercises | 966,156 | — |
| Lease payments | (332,137) | (309,949) |
| Net cash provided by financing activities | <u>\$ 23,796,545</u> | <u>\$ 7,303,541</u> |
| Net change in cash and restricted cash | \$ 15,047,871 | \$ 4,088,193 |
| Cash and restricted cash, beginning of period | \$ 25,513,180 | \$ 7,641,673 |
| Cash and restricted cash, end of period | <u>\$ 40,561,051</u> | <u>\$ 11,729,866</u> |

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

VIREO HEALTH INTERNATIONAL, INC.
Notes to Unaudited Condensed 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, and New York 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 is “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 in March 2020, the spread of COVID-19 has severely impacted virtually all areas of the globe. In many countries, including the United States, businesses were forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility. 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 notwithstanding the loosening or elimination of restrictions in some areas. 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

The accompanying unaudited condensed consolidated financial statements reflect the accounts of the Company. The information included in these statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Form 10-K for the year ended December 31, 2020 (the “**Annual Financial Statements**”). The unaudited condensed consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States of America (“**U.S. 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 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.

For the three months ended March 31, 2021, the Company reported a unaudited condensed consolidated net loss of \$6,986,572 and a net loss of \$7,513,021 for the three months ended March 31, 2020.

For the three months ended March 31, 2021, the Company had cash flows used in operating activities of \$4,974,828. The Company had net cash outflows for the three months ended March 31, 2020 of \$2,734,012.

The Company had working capital of \$34,497,476 and \$27,098,496 as of March 31, 2021, and December 31, 2020, respectively, reflecting an increase in cash of \$15,047,871 for the three months ended March 31, 2021.

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

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 during the period ended March 31, 2021:

| 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 Company's financial statements.

Recently adopted accounting pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740) which is intended to simplify the accounting for income taxes by eliminating certain exceptions and simplifying certain requirements under Topic 740. Updates are related to intra-period 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. The adoption of the standard did not have a material impact on the Company's results of operations or cash flows.

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 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 unaudited condensed 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 unaudited condensed 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-

cancelable 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 three month periods ending March 31, 2021 and 2020 were as follows:

| | Period ended March 31, | |
|-------------------|-------------------------------|-------------------|
| | 2021 | 2020 |
| Stock options | 23,772,642 | 22,728,577 |
| Warrants | 4,395,949 | 31,640,183 |
| Convertible notes | 211,765 | 223,529 |
| Total | <u>28,380,356</u> | <u>54,592,289</u> |

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 complete 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

The Company has not adopted any new or amended standards during the period ended March 31, 2021.

3. Business Combinations and Dispositions

Dispositions

On October 1, 2020, the Company caused three of its executives to enter into a definitive agreement with a third party to sell all of the assets and liabilities of its affiliated company, Ohio Medical Solutions, LLC (“OMS”), which was owned by such executives, for \$1,150,000 in cash. On March 31, 2021, the sale of OMS was completed. As part of this transaction, the Company transferred assets and liabilities with a net book value of \$712,893. Consideration received exceeded OMS’s net assets at the time of sale, resulting in a gain of \$437,107 which was recorded in the statement of loss and comprehensive loss for the three months ended March 31, 2021.

Asset Acquisitions

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 stock.

The acquisition of MJ Distributing was completed on January 5, 2021. As part of the closing of the acquisition the restricted cash of 1,592,500 was transferred to the sellers, the convertible notes in escrow were cancelled, and the Company issued

1,050,000 subordinate voting shares to the sellers. Management determined the total consideration paid of \$1,592,500 in restricted cash, \$1,564,500 associated with the fair value of the subordinate voting shares issued, and \$28,136 of incurred acquisition costs, was equal to the fair value of the intangible asset acquired, or \$3,185,136. The related operating results are included in the accompanying unaudited condensed consolidated statements of operations, changes in shareholders' equity, and statement of cash flows commencing from the date of acquisition.

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 March 31, 2021, and December 31, 2020, indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value:

| | <u>Quoted prices in active markets for identical assets (Level 1)</u> | <u>Other observable inputs (Level 2)</u> | <u>Significant unobservable inputs (Level 3)</u> | <u>Total</u> |
|-------------------|---|--|--|---------------------|
| March 31, 2021 | | | | |
| Cash | \$ 40,561,051 | \$ — | \$ — | \$40,561,051 |
| Restricted cash | — | — | — | — |
| Total assets | <u>\$ 40,561,051</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$40,561,051</u> |
| Warrant liability | — | — | 5,237,230 | 5,237,230 |
| Total liabilities | <u>\$ —</u> | <u>\$ —</u> | <u>\$5,237,230</u> | <u>\$ 5,237,230</u> |
| December 31, 2020 | | | | |
| Cash | 25,513,180 | — | — | 25,513,180 |
| Restricted cash | 1,592,500 | — | — | 1,592,500 |
| Total assets | <u>\$ 27,105,680</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$27,105,680</u> |

The following table reflects the activity for the Company's warrant derivative liability for the private placement measured at fair value using Level 3 inputs:

| | <u>Warrant Liability</u> |
|-------------------------------------|--------------------------|
| Balance as of December 31, 2020 | \$ — |
| Issuance | 5,395,759 |
| Adjustments to estimated fair value | (158,529) |
| Balance as of March 31, 2021 | <u>\$ 5,237,230</u> |

The resulting gain upon revaluation of \$158,529 for the three month period ended March 31, 2021, is reflected in the statement of net loss and comprehensive loss.

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 12 & 13). No additional impairment was determined necessary as of March 31, 2021.

The estimated fair value of cash and cash equivalents, accounts receivable, net, accounts payable, and accrued expenses and other current liabilities at March 31, 2021 and December 31, 2020 approximate their carrying amount due to short term nature of these instruments.

5. Trade Receivables

Trade receivables are comprised of the following items:

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> |
|--------------------------------|---------------------------|------------------------------|
| Trade receivable | \$ 728,405 | \$ 486,807 |
| Tenant improvements receivable | — | 127,160 |
| Other | 139,188 | 83,027 |
| Total | <u>\$ 867,593</u> | <u>\$ 696,994</u> |

Included in the trade receivables, net balance at March 31, 2021 is an allowance for doubtful accounts of \$116,202 and \$132,490 at December 31, 2020.

6. Notes Receivable

As of March 31, 2021, the Company had a total of \$3,948,471 in notes receivable and \$4,043,700 at December 31, 2020. The March 31, 2021 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 disposition of Pennsylvania Medical Solutions in August of 2020.

7. Inventory

Inventory is comprised of the following items net of inventory reserves of \$86,000 and \$290,000 as of March 31, 2021, and December 31, 2020, respectively:

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> |
|------------------------|---------------------------|------------------------------|
| Work-in-progress | \$ 9,867,420 | \$ 8,317,502 |
| Finished goods | 3,854,261 | 3,980,900 |
| Non-cannabis inventory | 810,655 | 346,493 |
| Total | <u>\$ 14,532,336</u> | <u>\$ 12,644,895</u> |

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:

| | <u>March 31, 2021</u> | <u>March 31, 2020</u> |
|------------------------|---------------------------|---------------------------|
| Work-in-progress | \$ — | \$ — |
| Finished goods | 68,000 | 139,008 |
| Non-cannabis inventory | — | — |
| Total | <u>\$ 68,000</u> | <u>\$ 139,008</u> |

During the three months ended March 31, 2021 and 2020, the Company recorded write downs to net realizable value and adjustments to the inventory reserve. Based on the market sales prices relative to the cost to produce certain inventories net realizable value was less than the carrying value of inventory. Additionally, the inventory reserve associated with excess inventory on hand changed. Inventory write downs were \$152,000 and \$76,137, respectively, for the three months

ended March 31, 2021 and 2020. The change in the inventory reserve was (\$84,000) and \$62,871, respectively, for the three months ended March 31, 2021 and 2020.

8. Prepayments and other current assets

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

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> |
|------------------------|---------------------------|------------------------------|
| Prepaid Insurance | \$ 1,629,533 | \$ 921,600 |
| Other Prepaid Expenses | 828,762 | 630,678 |
| Total | <u>\$2,458,295</u> | <u>\$1,552,278</u> |

9. Deferred Acquisition Costs

As of March 31, 2021, the Company had a total of \$0 in deferred acquisition costs. The December 31, 2020 balance of \$28,136 relating to the acquisition of MJ Distributing was released upon the closing of the acquisition on January 5, 2021 (Note 3).

10. Property and Equipment, Net

Property and equipment, net consisted of the following:

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> |
|--|---------------------------|------------------------------|
| Land | \$ 1,366,650 | \$ 1,309,949 |
| Buildings and leasehold improvements | 12,601,124 | 7,280,665 |
| Furniture and equipment | 6,458,760 | 4,635,602 |
| Software | 221,540 | 221,540 |
| Vehicles | 403,738 | 379,852 |
| Construction-in-progress | 7,264,461 | 9,276,852 |
| Right of use asset under finance lease | 13,099,382 | 12,351,838 |
| | <u>41,415,655</u> | <u>35,456,298</u> |
| Less: accumulated depreciation | <u>(5,491,751)</u> | <u>(4,890,039)</u> |
| Total | <u>\$35,923,904</u> | <u>\$30,566,259</u> |

For the three months ended March 31, 2021 and 2020, total depreciation on property and equipment was \$679,920 and \$477,869, respectively. For the three months ended March 31, 2021 and 2020, accumulated amortization of the right of use asset under finance lease amounted to \$1,802,458 and \$2,386,275, respectively. The right of use asset under finance lease of \$13,099,382 consists of leased processing and cultivation premises. The Company capitalized into inventory \$508,359 and \$474,903 relating to depreciation associated with manufacturing equipment and production facilities as of March 31, 2021 and 2020, respectively. The capitalized depreciation costs associated are added to inventory and expensed through Cost of Sales Product Cost on the unaudited condensed consolidated statements of net loss and comprehensive loss.

11. Leases

Components of lease expenses are listed below:

| | |
|-------------------------------|---------------------------|
| | March 31, 2021 |
| Finance lease cost | |
| Amortization of ROU assets | \$ 236,412 |
| Interest on lease liabilities | 937,122 |
| Operating lease expense | 681,673 |
| Total lease expenses | <u>\$1,855,207</u> |

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

| | Operating Leases March 31, 2021 | Finance Leases March 31, 2021 | Total |
|------------------------------------|--|--|----------------------|
| 2021 | \$ 2,353,764 | \$ 3,172,531 | \$ 5,526,295 |
| 2022 | 2,378,261 | 3,272,908 | 5,651,169 |
| 2023 | 2,229,235 | 3,308,949 | 5,538,184 |
| 2024 | 1,977,786 | 3,162,084 | 5,139,870 |
| 2025 | 1,686,894 | 3,271,854 | 4,958,748 |
| Thereafter | 3,729,838 | 61,246,713 | 64,976,551 |
| Total minimum lease payments | <u>\$ 14,355,778</u> | <u>\$ 77,435,039</u> | <u>\$ 91,790,817</u> |
| Less discount to net present value | | | (69,113,520) |
| Present value of lease liability | | | <u>\$ 22,677,297</u> |

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

Supplemental cash flow information related to leases:

| | |
|---|---------------------------|
| | March 31, 2021 |
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Financing cash flows from finance leases | \$ 332,137 |
| Non-cash additions to ROU assets | 1,758,281 |
| Amortization of operating leases | 340,853 |

Other information about lease amounts recognized in the financial statements:

| | |
|--|---------------------------|
| | March 31, 2021 |
| Weighted-average remaining lease term (years) – operating leases | 6.31 |
| Weighted-average remaining lease term (years) – finance leases | 18.70 |
| Weighted-average discount rate – operating leases | 15.00 % |
| Weighted-average discount rate – finance leases | 23.13 % |

12. Goodwill

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

| | |
|---|---------------------|
| Goodwill - January 1, 2020 | \$ 3,132,491 |
| Impairment | <u>—</u> |
| Goodwill - December 31, 2020 and March 31, 2021 | <u>\$ 3,132,491</u> |

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's annual impairment testing is December 31. On this date the Company performed a Step 1 goodwill impairment analysis.

13. Intangibles

During the three months ended March 31, 2021, the Company acquired cannabis licenses in Nevada. The fair value allocated to a license is depreciated over its expected useful life, which is estimated to be 15 years.

Intangible assets are comprised of the following items:

| | <u>Licenses</u> | <u>Royalty Asset</u> | <u>Total</u> |
|-----------------------------|---------------------|----------------------|---------------------|
| Balance, December 31, 2019 | \$ 9,001,237 | — | \$ 9,001,237 |
| Additions (<i>Note 3</i>) | — | 68,276 | 68,276 |
| Dispositions | (45,000) | — | (45,000) |
| Amortization | (615,094) | — | (615,094) |
| Balance, December 31, 2020 | <u>\$ 8,341,143</u> | <u>\$ 68,276</u> | <u>\$ 8,409,419</u> |
| Additions (<i>Note 3</i>) | 3,185,136 | — | 3,185,136 |
| Amortization | (206,443) | — | (206,443) |
| Balance, March 31, 2021 | <u>\$11,319,836</u> | <u>\$ 68,276</u> | <u>\$11,388,112</u> |

Amortization expense for intangibles was \$206,443 and \$154,190 during the three months ending March 31, 2021 and 2020, respectively, and is recorded in operating expenses on the unaudited condensed consolidated statements of net loss and comprehensive loss.

The Company estimates that amortization expense will be \$825,772 per year for the next five fiscal years.

14. Accounts Payable and Accrued Liabilities

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

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> |
|--|---------------------------|------------------------------|
| Accounts payable – trade | \$ 1,394,782 | \$ 900,929 |
| Accrued Expenses | 5,003,465 | 5,106,407 |
| Taxes payable | 8,993,108 | 7,227,245 |
| Contract liability | 284,088 | 242,722 |
| Total accounts payable and accrued liabilities | <u>\$15,675,443</u> | <u>\$13,477,303</u> |

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.

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 of \$1,971,705, the Company received \$24,028,295 of the first tranche on March 25, 2021. Additionally, the Company incurred fees and closing costs of \$986,035 which were paid in cash. 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 paid in kind interest payable monthly. 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 subordinate voting shares at an exercise price of C\$3.50 per share, and (b) a five year warrant to the broker to purchase 233,665 subordinate voting shares at an exercise price of C\$3.50 per share. Each warrant provides customary anti-dilution provisions. The fair value of these warrants at the time of issuance was \$5,395,759 (Note 16) which is treated as a deferred financing cost.

All deferred financing costs are treated as a contra-liability, to be netted against the outstanding loan balance of \$26,000,000 and amortized over the remaining life of the loan.

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

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> |
|--------------------------|---------------------------|------------------------------|
| Beginning of year | \$ 1,110,000 | \$ 1,110,000 |
| Proceeds | 26,000,000 | — |
| Deferred financing costs | <u>(8,353,499)</u> | <u>—</u> |
| End of period | 18,756,501 | 1,110,000 |
| Less: Current portion | <u>(1,110,000)</u> | <u>(1,110,000)</u> |
| Total long-term debt | <u>\$17,646,501</u> | <u>\$ —</u> |

16. Derivative Liability

On March 25, 2021, in connection with closing the Credit Facility (Note 15), Vireo issued (a) five year warrants to the agent to and each lender to purchase an aggregate of 2,803,984 subordinate voting shares at an exercise price of C\$3.50 per share, and (b) a five year warrant to the broker to purchase 233,665 subordinate voting shares at an exercise price of C\$3.50 per share.

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 25, 2021, the warrants were valued using the Black Scholes option pricing model at \$5,395,759 using the following assumptions: Share Price: \$2.45; Exercise Price: \$2.78; Expected Life: 5 years; Annualized Volatility: 100%; Dividend yield: 0%; Discount Rate: 0.83%; C\$ Exchange Rate: 1.258.

On March 31, 2021, the warrants were subsequently revalued using the Black Scholes option pricing model at \$5,237,230 using the following assumptions: Share Price: \$2.39; Exercise Price: \$2.79; Expected Life: 4.99 years; Annualized Volatility: 100%; Dividend yield: 0%; Discount Rate: 0.92%; C\$ Exchange Rate: 1.256. The resulting gain upon revaluation of \$158,529 is reflected in the unaudited condensed consolidated statements of net loss and comprehensive loss.

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 March 31, 2021, the warrants were subsequently revalued using the Black Scholes option pricing model at \$2,229,101 using the following assumptions: Share Price: \$0.38; Exercise Price: \$0.68; Expected Life: 2.94 years; Annualized Volatility: 90%; Dividend yield: 0%; Discount Rate: 0.23%; C\$ Exchange Rate: 1.41. The resulting gain upon revaluation of \$1,325,928 is reflected in the unaudited condensed consolidated statements of net loss and comprehensive loss.

17. Convertible Notes

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.

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 subordinate voting shares, based on the \$900,000 aggregate principal amount of convertible notes outstanding as of March 31, 2021.

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

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> |
|-------------------------|-----------------------|--------------------------|
| 5.00% convertible notes | \$ 900,000 | \$ 900,000 |
| Net carrying amount | <u>\$ 900,000</u> | <u>\$ 900,000</u> |

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 the Company's earnings and losses on an as converted basis.

| | <u>Par Value</u> | <u>Authorized</u> | <u>Voting Rights</u> |
|----------------------------------|------------------|-------------------|----------------------------|
| 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 are 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 are entitled to one thousand votes per Super Voting Share. Each Super Voting share is convertible into one Multiple Voting Share.

Shares Issued

During the three months ended March 31, 2021, employee stock options were redeemed for 3,130,343 Subordinate Voting Shares. Proceeds from these transactions were \$966,156.

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, the Company issued 7,110,481 subordinate voting shares to its 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 with a fair value of \$1,627,820 pursuant to an exemption from registration under the Securities Act. The fair value of the 889,519 subordinate voting shares issued of \$1,627,820 was recorded as stock-based compensation expense in the unaudited condensed consolidated statements of net loss and comprehensive loss for the three months ended March 31, 2021. The Company 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 15,000,000 warrants under his employment agreement and as part of the settlement, he surrendered all right, title, and interest in the remaining 5,000,000 warrants for cancellation.

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 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 share. The Company has the right to force the holders of the warrants to exercise the warrants into subordinate voting shares if, prior to the maturity date, the five-trading-day volume weighted-average price of the subordinate voting 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).

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 shares 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:

| | <u>March 31, 2021</u> | <u>March 31, 2020</u> |
|----------------------------------|---------------------------|---------------------------|
| Risk-Free Interest Rate | N/A | 1.41 |
| Expected Life of Options (years) | N/A | 9.31 |
| Expected Annualized Volatility | N/A | 100.00 % |
| Expected Forfeiture Rate | N/A | — |
| Expected Dividend Yield | N/A | — |

Stock option activity for the three months ended March 31, 2021 and for the years ended December 31, 2020 and 2019, are presented below:

| | <u>Number of Shares</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Avg. Remaining Life</u> |
|---------------------------------------|--------------------------|--|---|
| 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 | — |
| Balance, December 31, 2020 | <u>26,924,858</u> | <u>\$ 0.47</u> | <u>7.00</u> |
| Forfeitures | (21,873) | 1.13 | — |
| Exercised | (3,130,343) | 0.31 | — |
| Options Outstanding at March 31, 2021 | <u><u>23,772,642</u></u> | <u><u>\$ 0.49</u></u> | <u><u>6.69</u></u> |
| Options Exercisable at March 31, 2021 | <u>15,950,559</u> | <u>\$ 0.33</u> | <u>5.68</u> |

During the three months ended March 31, 2021 and 2020, the Company recognized \$686,755 and \$372,125 in stock-based compensation relating to stock options, respectively. As of March 31, 2021, the total unrecognized compensation costs related to unvested stock options awards granted was \$4,937,067. In addition, the weighted average period over which the unrecognized compensation expense is expected to be recognized is approximately 2.7 years. The total intrinsic value of stock options outstanding and exercisable as of March 31, 2021, was \$45,145,652 and \$32,812,131, 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.

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

| | <u>March 31, 2021</u> | <u>March 31, 2020</u> |
|----------------------------------|---------------------------|---------------------------|
| SVS Warrants | | |
| Risk-Free Interest Rate | N/A | N/A |
| Expected Life of Options (years) | N/A | N/A |
| Expected Annualized Volatility | N/A | N/A |
| Expected Forfeiture Rate | N/A | N/A |
| Expected Dividend Yield | N/A | N/A |

| | <u>March 31, 2021</u> | <u>March 31, 2020</u> |
|--|-----------------------|-----------------------|
| SVS Warrants Denominated in C\$ | | |
| Risk-Free Interest Rate | 0.92 % | 0.23 % |
| Expected Life of Options (years) | 4.99 | 2.94 |
| Expected Annualized Volatility | 100 % | 90 % |
| Expected Forfeiture Rate | N/A | N/A |
| Expected Dividend Yield | N/A | N/A |

| | <u>March 31, 2021</u> | <u>March 31, 2020</u> |
|----------------------------------|---------------------------|---------------------------|
| MVS Warrants | | |
| Risk-Free Interest Rate | N/A | N/A |
| Expected Life of Options (years) | N/A | N/A |
| Expected Annualized Volatility | N/A | N/A |
| Expected Forfeiture Rate | N/A | N/A |
| Expected Dividend Yield | N/A | N/A |

A summary of the warrants outstanding is as follows:

| | <u>Number of Warrants</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Life</u> |
|---|-------------------------------|--|--|
| SVS Warrants | | | |
| 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 |
| Exercised | (7,110,381) | 1.02 | 0.19 |
| Expired | (763,111) | 4.25 | — |
| Forfeited | (7,889,619) | 3.44 | 0.19 |
| Warrants outstanding at March 31, 2021 | <u>—</u> | <u>\$ —</u> | <u>—</u> |

Warrants exercisable at March 31, 2021 — \$ — —

| | <u>Number of Warrants</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Life</u> |
|---|-------------------------------|--|--|
| SVS Warrants denominated in C\$ | | | |
| Warrants outstanding at December 31, 2020 | — | \$ — | — |
| Granted | 3,037,649 | 3.50 | 4.99 |
| Warrants outstanding at March 31, 2021 | <u>3,037,649</u> | <u>\$ 3.50</u> | <u>4.99</u> |
| Warrants exercisable at March 31, 2021 | 3,037,649 | \$ 3.50 | 4.99 |

| MVS Warrants | Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Life |
|---|-------------------------------|--|--|
| Warrants outstanding at December 31, 2019 | 13,583 | \$ 194.66 | 2.73 |
| Issued | — | — | — |
| Warrants outstanding at December 31, 2020 | <u>13,583</u> | <u>\$ 194.66</u> | <u>1.64</u> |
| Issued | — | — | — |
| Warrants outstanding at March 31, 2021 | <u>13,583</u> | <u>\$ 194.66</u> | <u>1.39</u> |
| Warrants exercisable at March 31, 2021 | 13,583 | \$ 194.66 | 1.39 |

During the three months ended March 31, 2021, \$0 (2020 - \$2,309,596) in stock-based compensation expense was recorded in connection with the SVS compensation warrants and \$0 (2020 - \$54,217) in stock-based compensation was recorded in connection with the MVS warrants.

20. Commitments and Contingencies

Legal proceedings

On February 25, 2019, Dr. Mark Schneyer (“**Schneyer**”) filed a lawsuit in Minnesota District Court, Fourth District, on his own behalf and, derivatively, on behalf of Dorchester Capital, LLC, naming Vireo U.S., Dorchester Management, LLC (“**Dorchester Management**”), and Dorchester Capital, LLC (“**Capital**”), as defendants. Dorchester Management is an affiliated entity to Vireo Health, Inc. (“**Vireo U.S.**”) and was previously used as a management company over Capital. It no longer has active operations following Vireo U.S.’s acquisition of MaryMed, LLC (“**MaryMed**”) in 2017. It is owned and controlled by Kyle Kingsley and Amber Shimpa, executive officers and directors of the Company. The essence of the claims made by Schneyer is Vireo U.S. paid an inadequate price for MaryMed, which it purchased it from Capital in 2018, and that the consideration given – shares of preferred stock in Vireo U.S. – was distributed inappropriately by Capital at the direction of Dorchester Management (the managing member of Capital). Schneyer, who is a Class B member of Capital, is seeking unspecified damages in excess of \$50,000 and other relief.

Simultaneously with the complaint, Schneyer filed a motion seeking a temporary restraining order (“**TRO**”) to prevent the “further transfer” of MaryMed which would, Schneyer claimed, occur if Vireo U.S.’s RTO transactions were allowed to occur. The court held a hearing on the motion for TRO on March 5, 2019 and denied the motion on the same day.

Weeks prior to commencement of the litigation, Dorchester Management had appointed a special litigation committee (“**SLC**”) on behalf of Capital to investigate the consideration provided by Vireo U.S. for the purchase of MaryMed and assess any potential claims Capital may have as a result of the transaction. The SLC, a retired judge who engaged another retired judge as legal counsel to the SLC, was appointed in accordance with Minnesota law issued a report in May, 2021, recommending that certain claims not be permitted to proceed by the court. As of May 6, 2021, the court has not yet issued a determination regarding any of the matters contained in the SLC’s report.

We have filed motions to dismiss the complaint and to stay the proceedings. The motion to dismiss has not yet been decided and the motion to stay was granted on November 23, 2019, pending the outcome of the SLC process. We believe that Schneyer’s claims lack merit and expect to prevail in the litigation, if and when it proceeds. However, should we not ultimately prevail, it is not possible to estimate the amount or range of potential loss, if any.

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:

| | Three Months Ended | |
|-----------------------|---------------------|---------------------|
| | March 31, | |
| | 2021 | 2020 |
| Salaries and benefits | \$ 3,536,774 | \$ 3,564,715 |
| Professional fees | 1,115,691 | 729,121 |
| Insurance expenses | 598,164 | 685,799 |
| Other expenses | 2,785,362 | 1,897,490 |
| Total | <u>\$ 8,035,991</u> | <u>\$ 6,877,125</u> |

22. Supplemental Cash Flow Information⁽¹⁾

| | March 31, 2021 | March 31, 2020 |
|--|-------------------|-------------------|
| Cash paid for interest | \$ 1,350,659 | \$ 1,534,026 |
| Cash paid for income taxes | — | — |
| Non-cash change in construction accrued expenses | 290,054 | 1,946,722 |
| Non-cash investing | | |
| Acquisition of Nevada through issuance of SVS | 1,564,500 | — |
| Acquisition of Nevada through restricted cash and deferred acquisition costs | 1,620,636 | — |

(1) For supplemental cash flow information related to leases, refer to Note 11.

23. 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, Maryland, Massachusetts, Minnesota, Nevada, New Mexico, New York, and Puerto Rico with respect to cultivating, processing, and/or distributing marijuana. Presently, this industry is illegal under United States federal law. The Company has adhered, and intends to continue to adhere, strictly to the applicable 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 March 31, 2021, 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 operates in the United States. The U.S. 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 U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the U.S., and a lack of accepted safety for the use of the drug under medical supervision. The U.S. Food and Drug

Administration has not approved marijuana as a safe and effective drug for any indication. In the U.S. 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.

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. Management believes that the Company is not exposed to significant interest rate risk.

24. Related Party Transactions

As of March 31, 2021, and December 31, 2020, there were no amounts due from related parties.

For the three months ended March 31, 2021, and 2020, the Company paid a related party (Salo LLC, owned by a former member of the Board of Directors) for contract staffing expenses in the amount of \$0 and \$79,356, respectively.

Certain directors and officers of the Company (Kyle Kingsley, Amber Shimpa, and Stephen Dahmer) owned OMS, which was sold on March 31, 2021 (Note 3). None of the proceeds received from this transaction were paid to the aforementioned directors and officers, rather, they were owed and paid to the Company.

25. Subsequent Events

Subsequent to March 31, 2021, employee stock options were exercised for 459,001 Subordinate Voting Shares. Proceeds from these transactions were \$87,210 in cash.