UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2021

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

Commission File Number: 000-56225

GOODNESS GROWTH HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

British Columbia, Canada	82-3835655
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
207 South 9th Street, Minneapolis, MN	55402
(Address of principal executive offices)	(Zip Code)

(612) 999-1606
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	None	None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☑	Smaller reporting company	☑
		Emerging growth company	☑

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of August 11, 2021, the registrant had the following number of shares of each of its classes of registered securities outstanding: Subordinate Voting Shares – 78,315,477; Multiple Voting Shares – 414,949; and Super Voting Shares – 65,411.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

GOODNESS GROWTH HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(In U.S Dollars, unaudited and condensed)

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash	$ 20,826,356	$ 25,513,180
Restricted cash	—	1,592,500
Accounts receivable, net of allowance for doubtful accounts of $257,729 and $132,490, respectively	2,444,967	696,994
Inventory	16,727,640	12,644,895
Prepayments and other current assets	1,863,841	1,552,278
Notes receivable	100,561	293,700
Deferred acquisition costs	—	28,136
Assets Held for Sale	—	4,596,445
Deferred financing costs	—	120,266
Total current assets	41,963,365	47,038,394
Property and equipment, net	42,104,121	30,566,259
Operating lease, right-of-use asset	8,762,777	8,163,844
Notes receivable, long-term	3,750,000	3,750,000
Intangible assets, net	11,181,670	8,409,419
Goodwill	3,132,491	3,132,491
Deposits	1,413,719	1,412,124
Deferred tax assets	367,000	157,000
Total assets	$ 112,675,143	$ 102,629,531
Liabilities		
Current liabilities		
Accounts Payable and Accrued liabilities	10,012,597	13,477,303
Right of use liability	1,284,248	857,294
Convertible notes, net of issuance costs	—	900,000
Long-Term debt, current portion	1,110,000	1,110,000
Liabilities held for sale	—	3,595,301
Warrant Liability	3,705,859	—
Total current liabilities	16,112,704	19,939,898
Right-of-use liability	21,787,039	20,343,063
Long-Term debt	18,533,128	—
Total liabilities	$ 56,432,871	$ 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	170,442,492	164,079,614
Accumulated deficit	(114,200,220)	(101,733,044)
Total stockholders' equity	$ 56,242,272	$ 62,346,570
Total liabilities and stockholders' equity	$ 112,675,143	$ 102,629,531

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

GOODNESS GROWTH HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
(In U.S. Dollars, unaudited and condensed)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue	$ 14,230,900	$ 12,215,365	$ 27,420,789	$ 24,333,932
Cost of sales				
Product costs	7,273,011	8,430,507	14,779,059	17,132,160
Inventory valuation adjustments	45,000	194,234	113,000	333,242
Gross profit	6,912,889	3,590,624	12,528,730	6,868,530
Operating expenses:				
Selling, general and administrative	8,299,682	6,283,343	16,335,673	13,160,468
Stock-based compensation expenses	1,408,080	8,985,422	3,722,655	11,721,360
Depreciation	246,247	219,662	417,809	222,628
Amortization	206,442	154,191	412,885	308,381
Total operating expenses	10,160,451	15,642,618	20,889,022	25,412,837
Loss from operations	(3,247,562)	(12,051,994)	(8,360,292)	(18,544,307)
Other income (expense):				
Gain on disposal of assets held for sale	—	—	437,107	—
Derivative gain (loss)	1,531,371	(2,292,130)	1,689,900	(966,202)
Interest expenses, net	(2,756,358)	(1,543,169)	(3,782,504)	(2,993,433)
Other income (expenses)	(98,055)	141,859	(41,387)	(327,413)
Other expenses, net	(1,323,042)	(3,693,440)	(1,696,884)	(4,287,048)
Loss before income taxes	(4,570,604)	(15,745,434)	(10,057,176)	(22,831,355)
Current income tax expenses	(885,000)	(346,900)	(2,620,000)	(852,000)
Deferred income tax recoveries	(25,000)	(23,000)	210,000	55,000
Net loss and comprehensive loss	(5,480,604)	(16,115,334)	(12,467,176)	(23,628,355)
Net loss per share - basic and diluted	$ (0.04)	$ (0.16)	$ (0.10)	$ (0.25)
Weighted average shares used in computation of net loss per share - basic and diluted	125,557,734	98,871,038	120,856,801	93,695,441

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

GOODNESS GROWTH HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In U.S. Dollars, unaudited and condensed)

	Common Stock								
	SVS		MVS		Super Voting Shares				
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Total Stockholders' Equity**
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	—	—	—	—	—	—	11,721,360	—	11,721,360
Net loss	—	—	—	—	—	—	—	(23,628,355)	(23,628,355)
Balance at June 30, 2020	37,335,985	$ —	549,928	$ —	65,411	$ —	$ 143,256,444	$ (102,419,205)	$ 40,837,239
Balance, January 1, 2021	51,062,559	—	554,128	—	65,411	—	$ 164,079,614	$ (101,733,044)	$ 62,346,570
Conversion of MVS shares	13,197,700	—	(131,978)	—	—	—	—	—	—
Shares issued in Nevada acquisition	1,050,000	—	—	—	—	—	1,564,500	—	1,564,500
Shares issued	1,185,293	—	—	—	—	—	2,314,016	—	2,314,016
Options exercised	3,659,668	—	—	—	—	—	1,075,723	—	1,075,723
Warrants exercised	7,110,481	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	1,408,639	—	1,408,639
Net Loss	—	—	—	—	—	—	—	(12,467,176)	(12,467,176)
Balance at June 30, 2021	77,265,701	$ —	422,150	$ —	65,411	$ —	$ 170,442,492	$ (114,200,220)	$ 56,242,272

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

GOODNESS GROWTH HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. Dollars, except for per share data, unaudited and condensed)

	Six Months Ended June 30, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (12,467,176)	$ (23,628,355)
Adjustments to reconcile net loss to net cash used in operating activities:		
Inventory valuation adjustments	113,000	333,242
Depreciation	417,809	222,628
Depreciation capitalized into inventory	986,896	1,057,849
Non-cash operating lease expense	519,176	624,625
Amortization of intangible assets	412,885	308,381
Stock-based payments	3,722,655	11,721,360
Interest Expense	886,628	—
Gain/loss	-	53,077
Deferred income tax	(210,000)	(1,103,100)
Accretion	195,197	348,382
Derivative (Gain) Loss	(1,689,900)	966,202
Gain on disposal of OMS	(437,107)	—
Change in operating assets and liabilities:		
Accounts Receivable	(1,531,985)	128,106
Prepaid expenses	(292,260)	525,028
Inventory	(4,059,044)	(516,787)
Accounts payable and accrued liabilities	(4,182,954)	1,838,680
Change in assets and liabilities held for sale	124,843	(369,485)
Net cash used in operating activities	$ (17,491,337)	$ (7,490,167)
CASH FLOWS FROM INVESTING ACTIVITIES:		
PP&E Additions	$ (11,028,976)	$ (1,402,085)
Proceeds from sale of OMS net of cash	1,150,000	—
Deposits	(1,595)	16,265
Net cash provided by (used in) investing activities	$ (9,880,571)	$ (1,385,820)
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	—
Convertible debt payment	(900,000)	—
Proceeds from option exercises	1,075,723	—
Lease payments	(653,165)	(652,477)
Net cash provided by financing activities	$ 22,685,084	$ 6,961,013
Net change in cash and restricted cash	$ (4,686,824)	$ (1,914,974)
Cash and restricted cash, beginning of period	$ 25,513,180	$ 9,234,173
Cash and restricted cash, end of period	$ 20,826,356	$ 7,319,199

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

GOODNESS GROWTH HOLDINGS, INC.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Description of Business and Summary

Goodness Growth Holdings, Inc. ("**Goodness Growth**" 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., the shareholders of Vireo U.S. became the controlling shareholders of the Company, and the Company changed its name to Vireo Health International, Inc. Following the RTO, the Company was listed on the Canadian Securities Exchange (the "**CSE**") under ticker symbol "VREO". On June 9, 2021, the Company changed its name to Goodness Growth Holdings, Inc. and its ticker symbol on the CSE to "GDNS."

Goodness Growth is a physician-led, science-focused organization that cultivates and manufactures pharmaceutical-grade cannabis and cannabis extracts. Goodness Growth 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 a large number of 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 unaudited condensed consolidated 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 and six months ended June 30, 2021, the Company reported a net loss of $5,480,604 and $12,467,176, respectively. For the three and six months ended June 30, 2020, the Company reported a net loss of $16,115,334 and $23,628,355, respectively.

For the six months ended June 30, 2021, the Company had cash flows used in operating activities of $17,491,337. The Company had net cash outflows for the six months ended June 30, 2021 of $4,686,824.

The Company had working capital of $25,850,661 and $27,098,496 as of June 30, 2021, and December 31, 2020, respectively, reflecting a decrease in cash of $4,686,824 for the six months ended June 30, 2021.

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

These unaudited condensed consolidated 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 unaudited condensed consolidated financial statements include the accounts of the following entities wholly owned, or effectively controlled by the Company during the period ended June 30, 2021:

Name of entity	Place of incorporation
Goodness Growth Holdings, 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
Vireo of Charm City, 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 unaudted condensed consolidated financial statements.

Recently adopted accounting pronouncements

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-cancellable term of the lease, which may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

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

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

Foreign currency

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

Net loss per share

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

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

The anti-dilutive shares outstanding for three month periods ending June 30, 2021 and 2020 were as follows:

	June 30,	
	2021	2020
Stock options	23,928,810	22,728,577
Warrants	4,395,949	31,640,183
Convertible notes	—	223,529
Total	28,324,759	54,592,289

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 June 30, 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 unaudted condensed consolidated statement of loss and comprehensive loss for the six months ended June 30, 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 currently hold licenses to cultivate and distribute, respectively, medical and adult-use 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 June 30, 2021, and December 31, 2020, indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
June 30, 2021				
Cash	$ 20,826,356	$ —	$ —	$ 20,826,356
Restricted cash	—	—	—	—
Total assets	$ 20,826,356	$ —	$ —	$ 20,826,356
Warrant liability	—	—	3,705,859	3,705,859
Total liabilities	$ —	$ —	$ 3,705,859	$ 3,705,859
December 31, 2020				
Cash	25,513,180	—	—	25,513,180
Restricted cash	1,592,500	—	—	1,592,500
Total assets	$ 27,105,680	$ —	$ —	$ 27,105,680

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:

	Warrant Liability
Balance as of December 31, 2020	—
Issuance	$ 5,395,759
Adjustments to estimated fair value	(1,689,900)
Balance as of June 30, 2021	$ 3,705,859

The resulting gain upon revaluation of $1,689,900 for the six month period ended June 30, 2021, is reflected in the unaudited condensed consolidated 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, 2020, the fair values of intangible assets and goodwill were concluded to exceed their carrying values. As a result, the Company did not record impairment charges during the year ended December 31, 2020. No additional impairment was determined necessary as of June 30, 2021.

The estimated fair value of cash and cash equivalents, accounts receivable, net, accounts payable, and accrued expenses and other current liabilities at June 30, 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:

	June 30, 2021	December 31, 2020
Trade receivable	$ 2,312,266	$ 486,807
Tenant improvements receivable	—	127,160
Other	132,701	83,027
Total	$ 2,444,967	$ 696,994

Included in the trade receivables, net balance at June 30, 2021 is an allowance for doubtful accounts of $257,729 and $132,490 at December 31, 2020.

6. Notes Receivable

As of June 30, 2021, the Company had a total of $3,850,561 in notes receivable and $4,043,700 at December 31, 2020. The June 30, 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 $161,000 and $290,000 as of June 30, 2021, and December 31, 2020, respectively:

	June 30, 2021	December 31, 2020
Work-in-progress	$ 11,410,299	$ 8,317,502
Finished goods	4,531,979	3,980,900
Non-cannabis inventory	785,362	346,493
Total	$ 16,727,640	$ 12,644,895

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Work-in-progress	$ —	$ —	$ —	$ —
Finished goods	45,000	194,234	113,000	333,242
Non-cannabis inventory	—	—	—	—
Total	$ 45,000	$ 194,234	$ 113,000	$ 333,242

During the three and six months ended June 30, 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.

8. Prepayments and other current assets

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

	June 30, 2021	December 31, 2020
Prepaid Insurance	$ 1,149,310	$ 921,600
Other Prepaid Expenses	714,531	630,678
Total	$ 1,863,841	$ 1,552,278

9. Deferred Acquisition Costs

As of June 30, 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:

	June 30, 2021	December 31, 2020
Land	$ 1,366,650	$ 1,309,949
Buildings and leasehold improvements	14,543,367	7,280,665
Furniture and equipment	6,695,681	4,635,602
Software	221,540	221,540
Vehicles	513,135	379,852
Construction-in-progress	11,488,545	9,276,852
Right of use asset under finance lease	13,491,738	12,351,838
	48,320,656	35,456,298
Less: accumulated depreciation	(6,216,535)	(4,890,039)
Total	$ 42,104,121	$ 30,566,259

For the six months ended June 30, 2021 and 2020, total depreciation on property and equipment was $1,404,705 and $1,280,477, respectively. For the six months ended June 30, 2021 and 2020, accumulated amortization of the right of use asset under finance lease amounted to $2,024,551 and $2,786,418, respectively. The right of use asset under finance lease of $13,491,738 consists of leased processing and cultivation premises. The Company capitalized into inventory $986,896 and $1,057,849 relating to depreciation associated with manufacturing equipment and production facilities as of June 30, 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:

	June 30, 2021
Finance lease cost	
Amortization of ROU assets	$ 458,505
Interest on lease liabilities	1,774,316
Operating lease expense	1,308,916
Total lease expenses	$ 3,541,737

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

	Operating Leases June 30, 2021	Finance Leases June 30, 2021	Total
2021	$ 2,426,535	$ 3,207,756	$ 5,634,291
2022	2,446,918	3,355,409	5,802,327
2023	2,180,276	3,313,906	5,494,182
2024	2,020,405	3,249,275	5,269,680
2025	1,619,600	3,361,488	4,981,088
Thereafter	3,369,175	68,733,017	72,102,192
Total minimum lease payments	$ 14,062,909	$ 85,220,851	$ 99,283,760
Less discount to net present value			(76,212,473)
Present value of lease liability			$ 23,071,287

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:

	June 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:	
Financing cash flows from finance leases	$ 653,165
Non-cash additions to ROU assets	2,369,610
Amortization of operating leases	630,776

Other information about lease amounts recognized in the financial statements:

	June 30, 2021
Weighted-average remaining lease term (years) – operating leases	6.07
Weighted-average remaining lease term (years) – finance leases	19.79
Weighted-average discount rate – operating leases	0.15 %
Weighted-average discount rate – finance leases	22.31 %

12. Goodwill

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

Goodwill - January 1, 2020	$ 3,132,491
Impairment	—
Goodwill - December 31, 2020 and June 30, 2021	$ 3,132,491

Goodwill is tested for impairment annually or more frequently if indicators of impairment exist or if a decision is made to dispose of business. The valuation date for the Company's annual impairment testing is December 31. On this date the Company performed a Step 1 goodwill impairment analysis. No indicators of impairment exist as of June 30, 2021.

13. Intangibles

During the six months ended June 30, 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:

	Licenses	Royalty Asset	Total
Balance, December 31, 2019	$ 9,001,237	$ —	$ 9,001,237
Additions *(Note 3)*	—	68,276	68,276
Dispostions	(45,000)	—	(45,000)
Amortization	(615,094)	—	(615,094)
Balance, December 31, 2020	$ 8,341,143	$ 68,276	$ 8,409,419
Additions *(Note 3)*	3,185,136	—	3,185,136
Amortization	(412,885)	—	(412,885)
Balance, June 30, 2021	$ 11,113,394	$ 68,276	$ 11,181,670

Amortization expense for intangibles was $206,442 and $412,885 during the three and six months ended June 30, 2021, respectively, and $154,191 and $308,381 during the three and six months ending June 30, 2020, respectively. Amortization expense 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:

	June 30, 2021	December 31, 2020
Accounts payable – trade	$ 1,295,036	$ 900,929
Accrued Expenses	5,608,793	5,106,407
Taxes payable	2,734,270	7,227,245
Contract liability	374,498	242,722
Total accounts payable and accrued liabilities	$ 10,012,597	$ 13,477,303

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, Goodness Growth 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:

	June 30, 2021	December 31, 2020
Beginning of year	$ 1,110,000	$ 1,110,000
Proceeds	26,000,000	—
Deferred financing costs	(8,353,499)	—
PIK interest	190,502	—
Amortization of deferred financing costs	696,125	—
End of period	19,643,128	1,110,000
Less: Current portion	(1,110,000)	(1,110,000)
Total long-term debt	$ 18,533,128	$ —

16. Derivative Liability

On March 25, 2021, in connection with closing the Credit Facility (Note 15), Goodness Growth 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 June 30, 2021, the warrants were subsequently revalued using the Black Scholes option pricing model at $3,705,859 using the following assumptions: Share Price: $1.83; Exercise Price: $2.82; Expected Life: 4.74 years; Annualized Volatility: 100%; Dividend yield: 0%; Discount Rate: 0.89%; C$ Exchange Rate: 1.239. The resulting gain upon revaluation of $1,689,900 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 June 30, 2021, the warrants were subsequently revalued using the Black Scholes option pricing model at $4,521,230 using the following assumptions: Share Price: $0.64; Exercise Price: $0.71; Expected Life: 2.69 years; Annualized Volatility: 90%; Dividend yield: 0%; Discount Rate: 0.16%; C$ Exchange Rate: 1.36. The resulting loss upon revaluation of $2,292,130 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. This note was repaid in full during the six month period ended June 30, 2021.

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

	June 30, 2021	December 31, 2020
5.00% convertible notes	$ —	$ 900,000
Net carrying amount	$ —	$ 900,000

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.

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

Subordinate Voting Shares

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

Multiple Voting Shares

Holders of Multiple Voting Shares 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 six months ended June 30, 2021, employee stock options were redeemed for 3,659,668 Subordinate Voting Shares. Proceeds from these transactions were $1,075,723.

On June 4, 2021, the Company issued 295,774 shares with a fair value of $686,196 to a third party for ongoing corporate advisory services. The fair value of the issued shares was recorded to stock-based compensation expense in the unaudited condensed consolidated statements of net loss and comprehensive loss for the three and six month periods ended June 30, 2021.

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 and six months ended June 30, 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:

	June 30, 2021	June 30, 2020
Risk-Free Interest Rate	1.25 %	1.37 - 1.48 %
Expected Life of Options (years)	7.00	8.01 - 10.00
Expected Annualized Volatility	100.00 %	100.00 %
Expected Forfeiture Rate	N/A	N/A
Expected Dividend Yield	N/A	N/A

Stock option activity for the three months ended June 30, 2021 and for the years ended December 31, 2020 and 2019, are presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Avg. Remaining Life
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	26,924,858	$ 0.47	7.00
Forfeitures	(34,186)	1.13	—
Exercised	(3,659,668)	0.31	—
Granted	697,806	2.32	—
Options Outstanding at June 30, 2021	23,928,810	$ 0.55	6.54
Options Exercisable at June 30, 2021	15,950,559	$ 0.34	5.44

During the six months ended June 30, 2021 and 2020, the Company recognized $1,408,639 and $649,785 in stock-based compensation relating to stock options, respectively. During the three months ended June 30, 2021 and 2020, the Company recognized $721,884 and $277,660 in stock-based compensation relating to stock options, respectively. As of June 30, 2021, the total unrecognized compensation costs related to unvested stock options awards granted was $4,111,897. In addition, the weighted average period over which the unrecognized compensation expense is expected to be recognized is approximately 2.5 years. The total intrinsic value of stock options outstanding and exercisable as of June 30, 2021, was $30,960,105 and $23,744,512, 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:

SVS Warrants	**June 30, 2021**	**June 30, 2020**
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

SVS Warrants Denominated in C$	**June 30, 2021**	**June 30, 2020**
Risk-Free Interest Rate	0.89 %	0.16 %
Expected Life of Options (years)	4.74	2.69
Expected Annualized Volatility	100.00 %	90.00 %
Expected Forfeiture Rate	N/A	N/A
Expected Dividend Yield	N/A	N/A

MVS Warrants	**June 30, 2021**	**June 30, 2020**
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:

SVS Warrants	**Number of Warrants**	**Weighted Average Exercise Price**	**Weighted Average Remaining Life**
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 June 30, 2021	—	$ —	—
Warrants exercisable at June 30, 2021	—	$ —	—

SVS Warrants Denominated in C$	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life
Warrants outstanding at December 31, 2020	—	$ —	—
Granted	3,037,649	3.50	—
Warrants outstanding at June 30, 2021	3,037,649	$ 3.50	4.74
Warrants exercisable at June 30, 2021	3,037,649	$ 3.50	4.74

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	13,583	$ 194.66	1.64
Issued	—	—	—
Warrants outstanding at June 30, 2021	13,583	$ 194.66	1.39
Warrants exercisable at June 30, 2021	13,583	$ 194.66	1.39

During the six months ended June 30, 2021, $0 (2020 - $10,981,157) in stock-based compensation expense was recorded in connection with the SVS compensation warrants and $0 (2020 - $90,418) in stock-based compensation was recorded in connection with the MVS warrants. During the three months ended June 30, 2021, $0 (2020 - $8,671,561) in stock-based compensation expense was recorded in connection with the SVS compensation warrants and $0 (2020 - $36,200) 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, among other things, that certain claims be permitted to proceed and other 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.

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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Salaries and benefits	$ 3,760,874	$ 2,868,371	$ 7,297,648	$ 6,433,086
Professional fees	826,367	755,244	1,942,058	1,484,365
Insurance expenses	719,185	714,337	1,317,349	1,400,136
Other expenses	2,993,256	1,945,391	5,778,618	3,842,881
Total	$ 8,299,682	$ 6,283,343	$ 16,335,673	$ 13,160,468

22. Supplemental Cash Flow Information[1]

	June 30, 2021	June 30, 2020
Cash paid for interest	$ 3,527,029	$ 2,119,518
Cash paid for income taxes	—	—
Non-cash change in construction accrued expenses	695,974	—
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 June 30, 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

Goodness Growth 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 June 30, 2021, and December 31, 2020, there were no amounts due from related parties.

For the six months ended June 30, 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

On July 8, 2021, the Company's subsidiary, Vireo of Charm City, LLC, signed a definitive agreement to purchase substantially all the assets of Charm City Medicus, LLC, a medical cannabis dispensary located in Baltimore, Maryland for a purchase price of $8.0 million, comprised of $4.0 million in cash, $2.0 million in subordinate voting shares (subject to a one year lock up), and a $2.0 million promissory note to be issued to the seller. The transaction is subject to approval of the dispensary license transfer by the Maryland Medical Cannabis Commission and customary closing conditions.

Subsequent to June 30, 2021, employee stock options were exercised for 329,676 Subordinate Voting Shares. Proceeds from these transactions were $76,028 in cash.

Item 2. 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 I, Item 1 of this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our outlook, 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 "anticipate," "believe," "continue," "remain," "could," "estimate," "expect," "intend," "may," "plan," "project," "will," "would," "should," "potential," "intention," "strategy," "strategic," "approach," "subject to," "possible," "pending," "if," 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 Quarterly Report on Form 10-Q and those discussed in the section titled "Risk Factors" set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 and in our other SEC and Canadian public filings. Such forward-looking statements reflect our beliefs and opinions on the relevant subject based on information available to us as of the date of this report, 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

Goodness Growth is a physician-led, science-focused company and IP developer 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 state-licensed subsidiaries, we cultivate and manufacture cannabis products and distribute these products through our growing network of Green Goods® and other retail dispensaries we own or operate as well as to third-party dispensaries in the markets in which our subsidiaries hold operating licenses.

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

Our wholly-owned subsidiary Resurgent Biosciences, Inc. 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 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 in the future. We are currently actively seeking opportunities in Massachusetts and Nevada.

Revenue Streams

We cultivate, manufacture, and distribute cannabis products to third parties in wholesale markets and cultivate, manufacture, and sell cannabis products directly to medical patients and adult-use customers in our retail stores.

During the six months ended June 30, 2021, we had operating revenue in six states: Arizona, Maryland, Minnesota, New Mexico, New York, and Ohio. Retail revenues were derived from sales in seventeen dispensaries throughout five states. We had one operational dispensary in Arizona, one in Maryland, eight in Minnesota, three in New Mexico, and four in New York. Wholesale revenues were derived from sales of products to third parties in the states of Arizona, Maryland, New York, and Ohio.

Our core markets in Arizona, New Mexico, and New York recently approved adult-use cannabis legalization. In Arizona, the ballot initiative to legalize adult-use sales was approved by Arizona voters in November 2020 and adult-use sales commenced in the first quarter of 2021. In March and April 2021, New York and New Mexico passed legislation approving adult-use cannabis, subject to the applicable regulatory organization approving program guidelines. Our remaining two core markets, Minnesota and Maryland, each has the potential to enact adult-use legalization in the next 24 months. In previous instances of adult-use legalization in several other state markets, licensed operators have realized substantial improvements in revenue growth rates, which gives us confidence that we will be able to drive financial performance improvements in the future in New York and New Mexico, and if such events occur in one or both of our remaining core markets, Minnesota and Maryland.

In addition to our core markets, during the six months ended June 30, 2021, we incurred start-up expenses related to pre-revenue operations in non-core markets, including Massachusetts, Nevada, and Puerto Rico. While these markets may offer future revenue opportunities, our 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, many governments and businesses have imposed restrictions on travel and business operations, temporarily closed businesses, and/or 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.

Three months ended June 30, 2021 Compared to Three months ended June 30, 2020

<u>Revenue</u>

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 three months ended June 30, 2021, 79% of the revenue was generated from retail dispensaries and 21% from wholesale business. For the three months ended June 30, 2020, 75% of the revenue was generated from retail business and 25% from wholesale business.

For the three months ended June 30, 2021, Minnesota operations contributed approximately 38% of revenues, New York contributed 31%, Arizona contributed 14%, New Mexico contributed 5%, and Maryland contributed 12%. For the three months ended June 30, 2020, Minnesota retail operations contributed approximately 33% of revenues, New York contributed 24%, Arizona contributed 11%, New Mexico contributed 5%, Maryland contributed 8%, and Pennsylvania contributed 19%.

Revenue for the three-months ended June 30, 2021 was $14,230,900, an increase of $2,015,535 or 16% compared to revenue of $12,215,365 for the three-months ended June 30, 2020. The increase is primarily attributable to increased revenue contributions from the retail businesses in Minnesota and Maryland of $1.3 million and $0.9 million respectively, and the wholesale business in New York of $1.4 million, partially offset by the lack of second quarter 2021 revenues in the Pennsylvania retail and wholesale businesses, which were divested in 2020. Key revenue drivers are the opening of the Fredrick dispensary in Maryland in the first quarter of 2021, increased patient demand in Minnesota, which is partially the result of four new dispensary openings which occurred after June 30, 2020, and a $1.1 million wholesale sale in New York.

Retail revenue for the three months ended June 30, 2021 was $11,301,497, an increase of $2,118,033 or 23% compared to retail revenue of $9,183,464 for the three months ended June 30, 2020 primarily due to revenue contributions from Minnesota and Maryland.

Wholesale revenue for the three months ended June 30, 2021 was $2,929,403, a decrease of $102,498 compared to wholesale revenue of $3,031,901 for the three months ended June 30, 2020. The decrease in revenue contributions was primarily due to the disposition of our Pennsylvania retail and wholesale operations, which were divested in December and August of 2020, respectively.

	Three Months Ended June 30,			
	2021	**2020**	**$Change**	**% Change**
Retail:				
MN	$ 5,361,221	$ 4,027,657	$ 1,333,564	33 %
NY	2,861,785	2,832,840	28,945	1 %
AZ	1,536,448	861,440	675,008	78 %
NM	674,045	603,933	70,112	12 %
MD	867,998	—	867,998	N.M. %
PA	—	857,594	(857,594)	(100)%
Total Retail	**$ 11,301,497**	**$ 9,183,464**	**$ 2,118,033**	**23 %**
Wholesale:				
AZ	$ 561,038	$ 446,848	$ 114,190	26 %
MD	805,994	960,384	(154,390)	(16)%
NY	1,562,371	112,528	1,449,843	1,288 %
OH	—	59,901	(59,901)	(100)%
PA	—	1,452,240	(1,452,240)	(100)%
Total Wholesale	**$ 2,929,403**	**$ 3,031,901**	**$ (102,498)**	**(3)%**
Total Revenue	**$ 14,230,900**	**$ 12,215,365**	**$ 2,015,535**	**16 %**
PA & OH Revenue	$ —	$ (2,369,735)	$ 2,369,735	(100)%
Total Revenue excluding PA & OH	**$ 14,230,900**	**$ 9,845,630**	**$ 4,385,270**	**45 %**
N.M. Not Meaningful				

Cost of Goods Sold and 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.

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 three months ended June 30, 2021 was $7,318,011, a decrease of $1,306,730 compared to the three months ended June 30, 2020 of $8,624,741, driven by higher throughput across all markets decreasing fixed cost per unit.

Gross profit for the three months ended June 30, 2021 was $6,912,889, representing a gross margin of 49%. This is compared to gross profit for the three months ended June 30, 2020 of $3,590,624 or a 29% gross margin. The increase in margin was driven by higher throughput across all markets decreasing fixed cost per unit. The Minnesota retail market saw gross profit expansion of approximately $1.1 million due to increased sales driven by the addition of four new dispensaries relative to June 30, 2020. Additionally, the New York market saw gross profit expansion of approximately $1.7 million driven by a $1.1 million wholesale sale during the three months ended June 30, 2021.

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 its more established operational markets (Minnesota and New York) and decrease in developing markets as business continues to grow (Arizona, New Mexico, and Maryland). The decrease 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 up in all markets. We anticipate that share-based compensation expenses will continue to persist in order to recruit and retain competitive talent.

Total expenses for the three months ended June 30, 2021 were $10,160,451, a decrease of $5,482,167 compared to total expenses of $15,642,618 for the three months ended June 30, 2020. The decrease in total expenses was attributable to a decrease in stock- based compensation expenses of approximately $7.6 million partially offset by increase general and administrative expenses of $2.0 million which was driven by significant operational buildouts in existing markets, specifically Arizona and Maryland, where we are in the process of large cultivation and manufacturing expansion projects.

Operating Loss before Income Taxes

Operating loss before other income (expense) and provision for income taxes for the three months ended June 30, 2021 was $(3,247,562), a decrease of $8,804,432 compared to $(12,051,994) for the three months ended June 30, 2020.

Total Other Expense

Total other expense for the three months ended June 30, 2021 were $1,323,042, a decrease of $2,370,398 compared to $3,693,440 for the three months ended June 30, 2020. This decrease is primarily attributable to the gain on derivative liability of $1,531,371.

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 three months ended June 30, 2021, tax expense totaled $910,000 compared to a tax expense of $369,900 for the three months ended June 30, 2020.

Six months ended June 30, 2021 Compared to Six months ended June 30, 2020

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 six months ended June 30, 2021, 79% of the revenue was generated from retail dispensaries and 21% from wholesale business. For the six months ended June 30, 2020, 71% of the revenue was generated from retail business and 29% from wholesale business.

For the six months ended June 30, 2021, Minnesota operations contributed approximately 39% of revenues, New York contributed 27%, Arizona contributed 21%, New Mexico contributed 5%, and Maryland contributed 8%. For the six months ended June 30, 2020, Minnesota operations contributed approximately 32% of revenues, New York contributed 23%, Arizona contributed 16%, New Mexico contributed 4%, Maryland contributed 7%, and Pennsylvania contributed 18%.

Revenue for the six months ended June 30, 2021 was $27,420,789, an increase of $3,086,857 or 13% compared to revenue of $24,333,932 for the six months ended June 30, 2020. The increase is primarily attributable to increased revenue contributions from the retail business in Minnesota of $2.9 million, and the wholesale business in New York of $1.4 million, partially offset by the lack of first quarter 2021 revenues in the Pennsylvania retail and wholesale businesses, which were divested in 2020. Key revenue drivers were the opening of the Fredrick dispensary in Maryland in the first quarter of 2021, increased patient demand in Minnesota, which is primarily the result of four new dispensary openings that occurred after June 30, 2020, and a $1.1 million wholesale sale in New York.

Retail revenue for the six months ended June 30, 2021 was $21,684,617, an increase of $4,318,262 or 25% compared to retail revenue of $17,366,355 for the six months ended June 30, 2020 primarily due to revenue contributions from Minnesota, Arizona, and Maryland.

Wholesale revenue for the six months ended June 30, 2021 was $5,736,172, a decrease of $1,231,405 compared to wholesale revenue of $6,967,577 for the six months ended June 30, 2020. The decrease in revenue contributions was primarily due to the disposition of our Pennsylvania wholesale operation, which was divested in August of 2020.

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	$ Change	% Change
Retail:				
MN	$ 10,587,312	$ 7,731,019	$ 2,856,293	37 %
NY	5,789,139	5,271,378	517,761	10 %
AZ	3,062,310	2,047,320	1,014,990	50 %
NM	1,320,342	1,036,368	283,974	27 %
MD	925,514	—	925,514	N.M.
PA	—	1,280,270	(1,280,270)	(100)%
Total Retail	**$ 21,684,617**	**$ 17,366,355**	**$ 4,318,262**	**25 %**
Wholesale:				
AZ	$ 2,526,971	$ 1,783,903	$ 743,068	42 %
MD	1,398,091	1,632,622	(234,531)	(14)%
NY	1,744,427	323,499	1,420,928	439 %
OH	66,683	238,829	(172,146)	(72)%
PA	—	2,988,724	(2,988,724)	(100)%
Total Wholesale	**$ 5,736,172**	**$ 6,967,577**	**$ (1,231,405)**	**(18)%**
Total Revenue	**$ 27,420,789**	**$ 24,333,932**	**$ 3,086,857**	**13 %**
PA & OH Revenue	$ (66,683)	$ (4,507,823)	$ 4,441,140	(99)%
Total Revenue excluding PA & OH	**$ 27,354,106**	**$ 19,826,109**	**$ 7,527,997**	**38 %**
N.M. Not Meaningful				

Cost of Goods Sold and Gross Profit

Cost of goods sold for the six months ended June 30, 2021 was $14,892,059, a decrease of $2,573,343 compared to the six months ended June 30, 2020 of $17,465,402, driven by higher throughput across all markets decreasing fixed cost per unit.

Gross profit for the six months ended June 30, 2021 was $12,528,730, representing a gross margin of 46%. This is compared to gross profit for the six months ended June 30, 2020 of $6,868,530 or a 28% gross margin. The increase in margin was driven by higher throughput across all markets decreasing fixed cost per unit. The Minnesota retail market saw gross profit expansion of approximately $2.4 million due to increased sales driven by the addition of four new dispensaries relative to June 30, 2020. Additionally, the New York market saw gross profit expansion of approximately $1.8 million driven by a $1.1 million wholesale sale during the six months ended June 30, 2021.

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 for the six months ended June 30, 2021 were $20,889,022, a decrease of $4,523,815 compared to total expenses of $25,412,837 for the six months ended June 30, 2020. The decrease in total expenses was attributable to a decrease in stock- based compensation expenses of approximately $8.0 million partially offset by increase general and administrative expenses of $3.2 million which was driven by significant operational buildouts in existing markets, specifically Arizona and Maryland, where we are in the process of large cultivation and manufacturing expansion projects.

Operating Loss before Income Taxes

Operating loss before other income (expense) and provision for income taxes for the six months ended June 30, 2021 was $(8,360,292), a decrease of $10,184,015 compared to $(18,544,307) for the six months ended June 30, 2020.

Total Other Expense

Total other expenses for the six months ended June 30, 2021 were $1,696,884, a decrease of $2,590,164 compared to $4,287,048 for the six months ended June 30, 2020. This decrease is primarily attributable to the gain on derivative liability of $1,689,900.

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 six months ended June 30, 2021, tax expense totaled $2,410,000 compared to a tax expense of $797,000 for the six months ended June 30, 2020.

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. We have 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 believes 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income (loss)	$ (5,480,604)	$ (16,115,334)	$ (12,467,176)	$ (23,628,355)
Interest expense, net	2,756,358	1,543,169	3,782,504	2,993,433
Income taxes	910,000	369,900	2,410,000	797,000
Depreciation & Amortization	452,689	373,853	830,694	531,009
Depreciation included in cost of goods sold	478,537	582,946	986,896	1,057,849
EBITDA (non-GAAP)	$ (883,020)	$ (13,245,466)	$ (4,457,082)	$ (18,249,064)
Derivative Gain	(1,531,371)	2,292,130	(1,689,900)	966,202
Inventory adjustment	45,000	194,234	113,000	333,242
Share-based compensation	1,408,080	8,985,422	3,722,655	11,721,360
Severance Expense	—	—	—	339,997
Gain on sale of discontinued operations	—	—	(437,107)	—
Adjusted EBITDA (non-GAAP)	$ (961,311)	$ (1,773,680)	$ (2,748,434)	$ (4,888,263)

Liquidity, Financing Activities During the Period, and Capital Resources

We are an early-stage growth company. We are generating cash from sales and deploying our 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, investor, and industry relations.

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

Credit Facility

On March 25, 2021, we 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, we received $24,028,295 of the first tranche on March 25, 2021. Additionally, we 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 of 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, we 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 CDN$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 CDN$3.50 per share. Each warrant provides customary anti-dilution provisions.

5% Convertible Note

On June 17, 2019, the Company issued a convertible note with a face value of $900,000 in connection with the XAAS Argo, Inc. acquisition. This note was repaid in full during the six month period ended June 30, 2021.

<u>Cash Used in Operating Activities</u>

Net cash used in operating activities was $17.5 million for the three months ended June 30, 2021, an increase of $10.0 million as compared to the six months ended June 30, 2020. The increase is primarily attributed to a substantial inventory build and a decrease in accounts payable and accrued liabilities driven by the payment of the Company's 2020 tax liability during the six months ended June 30, 2021, compared to stable inventory levels and an increase in accounts payable and accrued liabilities during the six months ended June 30, 2020.

<u>Cash Used in Investing Activities</u>

Net cash used in investing activities was $9.9 million for the three months ended June 30, 2021, compared to net cash used of $1.4 million for the six months ended June 30, 2020. The decrease in cash flow is primarily attributable to an increase property, plant, and equipment additions driven by operational expansion in Maryland and Arizona.

<u>Cash Provided by Financing Activities</u>

Net cash provided by financing activities was $22.7 million for the three months ended June 30, 2021, an increase of $15.7 million as compared to the six months ended June 30, 2020. The increase was principally due to the receipt of approximately $23 million in net proceeds from the Credit Facility.

Lease Transactions

As of June 30, 2021, we have entered into lease agreements for the use of buildings used in cultivation, production and/or sales of cannabis products in Arizona, Maryland, Minnesota, Nevada, New Mexico, New York, and Puerto Rico.

The lease agreements for all of the 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 us 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 June 30, 2021, we operated 17 retail locations secured under these agreements.

We have also entered into sale and leaseback arrangements for our cultivation and processing facilities in Minnesota and New York 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 June 30, 2021	Finance Leases June 30, 2021	Total
2021	$ 2,426,535	$ 3,207,756	$ 5,634,291
2022	2,446,918	3,355,409	5,802,327
2023	2,180,276	3,313,906	5,494,182
2024	2,020,405	3,249,275	5,269,680
2025	1,619,600	3,361,488	4,981,088
Thereafter	3,369,175	68,733,017	72,102,192
Total minimum lease payments	$ 14,062,909	$ 85,220,851	$ 99,283,760
Less discount to net present value			(76,212,473)
Present value of lease liability			$ 23,071,287

ADDITIONAL INFORMATION

Outstanding Share Data

As of August 11, 2021, we had 78,795,837 shares issued and outstanding, consisting of the following:

(a) *Subordinate voting shares*

78,315,477 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*

414,949 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 June 30, 2021, we have 23,928,810 employee stock options outstanding, as well as 3,037,649 SVS warrants denominated in C$ and 13,583 MVS warrants related to financing activities.

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, along with the successful execution of our core market strategy, will yield organic revenue growth for the foreseeable future. Stronger revenue growth, coupled with expectations for reduced selling, general, and administrative expenses as a percentage of revenue, should reduce the operating outflow of cash from existing operations throughout the remainder of 2021. Furthermore, recent efforts to scale production and expand our retail footprint could lead to a substantial improvement in financial performance through 2022, especially given the potential for positive regulatory developments.

We remain focused on the prudent deployment of capital into what we believe are high yield opportunities and on 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 generally pursue non-land-locked opportunities that allow for significant future expansion. Our recently completed nine-acre shade house in Arizona, 110,000 square foot expansion of our cultivation facility in Maryland, and recently acquired options to purchase an additional 96 acres in New York and 22 acres in Minnesota for future expansion, demonstrate our large-scale approach to production.

Consistent with a focus on driving profitable growth across our various markets, we anticipate making further investments in capital expenditures to improve scale with additional facility build outs as our markets continue expanding. Specifically, we began expansion projects of our cultivation facilities in Arizona and Maryland during the second quarter of fiscal year 2021. In Arizona, we expect to invest approximately $3.0 million for the development of a 30,000 square foot processing facility and a second nine-acre shade house adjacent to our existing operations, bringing our total cultivation capacity in the state to approximately 18 acres. In Maryland, we expect to invest approximately $5.0 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 these expansion projects to be completed by the end of 2021.

Our retail strategy is focused on the growth of our retail footprint and ongoing efforts to rebrand our stores to our Green Goods® retail concept. We opened four new stores in Minnesota in 2020, one new store in Maryland in March of 2021, and finished construction of two additional stores in New Mexico during the second quarter of 2021 which opened in the summer 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 commencement of adult use sales in the state.

In addition to the recent legislation legalizing adult-use cannabis in Arizona, New Mexico, and New York and recent approval of raw flower to the medical program in Minnesota, Maryland could also potentially pass adult-use legislation this year. We believe that each of these recent changes in state programs, once sales commence, will serve as significant revenue growth catalyst for our business, and that with large-scale production across our markets there are clear opportunities to protect and expand margins over time.

Management has provided various outlook ranges for performance in fiscal year 2022 below, the achievement of which depend upon several factors, including the Company's ability to achieve expected cultivation yields, the timing of completion of various development projects, the timing of commencement of adult-use sales in New Mexico and New York, and the timing of commencement of flower sales in the Minnesota medical market.

We expect to generate total revenue in the range of $140 to $180 million in fiscal year 2022. We expect to generate adjusted EBITDA in the range of $35 to $55 million in fiscal year 2022. We expect net capex, excluding financing from real estate partners, to be in the range of approximately $15 to $20 million through 2022, and to open an additional 6-10 Green Goods® retail dispensaries during this timeframe including the two recently-opened dispensaries in New Mexico. We believe it's possible for our business to produce positive cash flow from operations during the fourth quarter of fiscal year

2021 if our planned expansion projects are completed on time and we achieve cultivation yields that we expect across our operating footprint. Once our expansion projects are complete, and operating at full capacity, we expect to begin generateing positive cash flow from operations for full fiscal year 2022.

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from the information provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our 2020 Annual Report on Form 10-K for the year ended December 31, 2020.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk have been omitted as permitted under rules applicable to smaller reporting companies.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) are designed to ensure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the appropriate time periods, and that such information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure. We, under the supervisions of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2021 and, based on that evaluation, have concluded that the design and operation of our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) during the three and six months ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various regulatory issues, claims and lawsuits arising in the ordinary course of business, none of which, in the opinion of management, is expected to have a material, adverse effect on our results of operations or financial condition.

Schneyer Litigation

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, among other things, that certain claims be permitted to proceed and other 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 4, 2021, we issued 295,774 subordinated voting shares to a third party for ongoing corporate advisory services. We did not receive any proceeds in connection with the issuance of these shares. The shares issued are subject to a holding period expiring October 5, 2021.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
31.1	Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) certification of Chief Financial Officer
32.1	Section 1350 certification, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Includes the following financial and related information from Goodness Growth's Quarterly Report on Form 10-Q as of and for the quarter ended June 30, 2021, formatted in Inline Extensible Business Reporting Language (iXBRL): (1) the Consolidated Balance Sheets, (2) the Consolidated Statements of Income, (3) the Consolidated Statements of Comprehensive Income, (4) the Consolidated Statements of Changes in Stockholders' Equity, (5) the Consolidated Statements of Cash Flows, and (6) Notes to Consolidated Financial Statements.
104	The cover page from this Quarterly Report on Form 10-Q, formatted in Inline XBRL.

SIGNATURES

Pursuant to requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	GOODNESS GROWTH HOLDINGS, INC.
Date: August 13, 2021	By: *<u>/s/ Kyle E. Kingsley</u>* Name: Kyle E. Kingsley Title: Chief Executive Officer
Date: August 13, 2021	By: *<u>/s/ John A. Heller</u>* Name: John A. Heller Title: Chief Financial Officer