

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

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 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,		\$Change	% Change
	2021	2020		
<u>Retail:</u>				
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 %
<u>Wholesale:</u>				
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,		\$ Change	% Change
	2021	2020		
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)	<u>\$ (961,311)</u>	<u>\$ (1,773,680)</u>	<u>\$ (2,748,434)</u>	<u>\$ (4,888,263)</u>

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.

Cash Used in Operating Activities

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.

Cash Used in Investing Activities

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.

Cash Provided by Financing Activities

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	Finance Leases	Total
	June 30, 2021	June 30, 2021	
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	<u>\$ 14,062,909</u>	<u>\$ 85,220,851</u>	<u>\$ 99,283,760</u>
Less discount to net present value			(76,212,473)
Present value of lease liability			<u>\$ 23,071,287</u>

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 generating 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.