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.

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 nine months ended September 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 eighteen dispensaries throughout five states. We had one operational dispensary in Arizona, one in Maryland, eight in Minnesota, four 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 nine months ended September 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.

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

<u>Revenue</u>

We derived our revenue from cultivating, processing, and distributing cannabis products through our eighteen dispensaries in five states and our wholesale sales to third parties in three states. For the three months ended September 30, 2021, 86% of the revenue was generated from retail dispensaries and 14% from wholesale business. For the three months ended September 30, 2020, 79% of the revenue was generated from retail business and 21% from wholesale business.

For the three months ended September 30, 2021, Minnesota operations contributed approximately 41% of revenues, New York contributed 24%, Arizona contributed 12%, New Mexico contributed 6%, and Maryland contributed 17%. For the three months ended September 30, 2020, Minnesota operations contributed approximately 34% of revenues, New York contributed 23%, Arizona contributed 12%, New Mexico contributed 5%, Maryland contributed 10%, Ohio contributed 1%, and Pennsylvania contributed 15%.

Revenue for the three-months ended September 30, 2021 was $13,369,432, an increase of $893,650 or 7% compared to revenue of $12,475,782 for the three-months ended September 30, 2020. The increase is primarily attributable to increased revenue contributions from the retail businesses in Minnesota and Maryland of $1.2 million and $1.1 million respectively, partially offset by the lack of third 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 September 30, 2020.

Retail revenue for the three months ended September 30, 2021 was $11,562,440 an increase of $1,658,406 or 17% compared to retail revenue of $9,904,034 for the three months ended September 30, 2020 primarily due to revenue contributions from Minnesota and Maryland.

Wholesale revenue for the three months ended September 30, 2021 was $1,806,992, a decrease of $764,756 compared to wholesale revenue of $2,571,748 for the three months ended September 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 September 30,			
	2021	**2020**	**$Change**	**% Change**
Retail:				
MN	$ 5,539,552	$ 4,293,831	$ 1,245,721	29 %
NY	2,789,985	2,735,990	53,995	2 %
AZ	1,326,357	928,718	397,639	43 %
NM	854,105	621,728	232,377	37 %
MD	1,052,441	—	1,052,441	N.M. %
PA	—	1,323,767	(1,323,767)	(100)%
Total Retail	**$ 11,562,440**	**$ 9,904,034**	**$ 1,658,406**	**17 %**
Wholesale:				
AZ	$ 227,824	$ 541,388	$ (313,564)	(58)%
MD	1,172,961	1,178,516	(5,555)	(0)%
NY	406,207	181,236	224,971	124 %
OH	—	137,466	(137,466)	(100)%
PA	—	533,142	(533,142)	(100)%
Total Wholesale	**$ 1,806,992**	**$ 2,571,748**	**$ (764,756)**	**(30)%**
Total Revenue	**$ 13,369,432**	**$ 12,475,782**	**$ 893,650**	**7 %**
PA & OH Revenue	$ —	$ (1,994,375)	$ 1,994,375	(100)%
Total Revenue excluding PA & OH	**$ 13,369,432**	**$ 10,481,407**	**$ 2,888,025**	**28 %**
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 bulk materials and 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 September 30, 2021 was $8,254,444, an increase of $742,445 compared to the three months ended September 30, 2020 of $7,511,999, driven by higher throughput and sales.

Gross profit for the three months ended September 30, 2021 was $5,114,988, representing a gross margin of 38%. This is compared to gross profit for the three months ended September 30, 2020 of $4,963,783 or a 40% gross margin. The decrease in margin was driven by an increase in inventory valuation adjustments of $199,672 compared to the three months ended September 30, 2020. Excluding inventory valuation adjustments, margins were relatively flat. The Minnesota retail market saw slight margin expansion due to increased sales driven by the addition of four new dispensaries relative to September 30, 2020. The Minnesota margin expansion was offset by slight margin compression in New York and Arizona.

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 September 30, 2021 were $9,245,849 an increase of $2,012,880 compared to total expenses of $7,232,969 for the three months ended September 30, 2020. The increase in total expenses was attributable to a increase in stock-based compensation expenses of approximately $0.3 million and an increase general and administrative expenses of $1.6 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 September 30, 2021 was $(4,130,861), an increase of $1,861,675 compared to $(2,269,186) for the three months ended September 30, 2020.

Total Other Income (Expense)

Total other expense for the three months ended September 30, 2021 was $(1,552,370), a change of $12,776,560 compared to other income of $11,224,190 for the three months ended September 30, 2020. This change is primarily attributable to the gain on disposal of PAMS during the three months ended September 30, 2020 of 16,884,173.

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 September 30, 2021, tax expense totaled $560,000 compared to a tax expense of $6,003,000 for the three months ended September 30, 2020. The decrease in tax expense is primarily attributable to the gain on the disposal of PAMS during the three months ended September 30, 2020.

Nine months ended September 30, 2021 Compared to Nine months ended September 30, 2020

Revenue

We derived our revenue from cultivating, processing, and distributing cannabis products through our eighteen dispensaries in five states and our wholesale sales to third parties in four states. For the nine months ended September 30, 2021, 82% of the revenue was generated from retail dispensaries and 18% from wholesale business. For the nine months ended September 30, 2020, 74% of the revenue was generated from retail business and 26% from wholesale business.

For the nine months ended September 30, 2021, Minnesota operations contributed approximately 40% of revenues, New York contributed 26%, Arizona contributed 18%, New Mexico contributed 5%, and Maryland contributed 11%. For the nine months ended September 30, 2020, Minnesota operations contributed approximately 33% of revenues, New York contributed 23%, Arizona contributed 14%, New Mexico contributed 5%, Maryland contributed 8%, and Pennsylvania contributed 17%.

Revenue for the nine months ended September 30, 2021 was $40,790,221, an increase of $3,980,507 or 11% compared to revenue of $36,809,714 for the nine months ended September 30, 2020. The increase is primarily attributable to increased revenue contributions from the retail business in Minnesota and Maryland of $4.1 million and $2.0 million, respectively, and the wholesale business in New York of $1.6 million, partially offset by the lack of 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 September 30, 2020.

Retail revenue for the nine months ended September 30, 2021 was $33,247,058, an increase of $5,976,669 or 22% compared to retail revenue of $27,270,389 for the nine months ended September 30, 2020 primarily due to revenue contributions from Minnesota, Arizona, and Maryland.

Wholesale revenue for the nine months ended September 30, 2021 was $7,543,163, a decrease of $1,996,162 compared to wholesale revenue of $9,539,325 for the nine months ended September 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.

	Nine Months Ended September 30,			
	2021	2020	$ Change	% Change
Retail:				
MN	$ 16,126,864	$ 12,024,850	$ 4,102,014	34 %
NY	8,579,124	8,007,368	571,756	7 %
AZ	4,388,668	2,976,038	1,412,630	47 %
NM	2,174,447	1,658,096	516,351	31 %
MD	1,977,955	—	1,977,955	N.M.
PA	—	2,604,037	(2,604,037)	(100)%
Total Retail	**$ 33,247,058**	**$ 27,270,389**	**$ 5,976,669**	**22 %**
Wholesale:				
AZ	$ 2,754,795	$ 2,325,291	$ 429,504	18 %
MD	2,571,051	2,811,138	(240,087)	(9)%
NY	2,150,634	504,735	1,645,899	326 %
OH	66,683	376,295	(309,612)	(82)%
PA	—	3,521,866	(3,521,866)	(100)%
Total Wholesale	**$ 7,543,163**	**$ 9,539,325**	**$ (1,996,162)**	**(21)%**
Total Revenue	**$ 40,790,221**	**$ 36,809,714**	**$ 3,980,507**	**11 %**
PA & OH Revenue	$ (66,683)	$ (6,502,198)	$ 6,435,515	(99)%
Total Revenue excluding PA & OH	**$ 40,723,538**	**$ 30,307,516**	**$ 10,416,022**	**34 %**
N.M. Not Meaningful				

Cost of Goods Sold and Gross Profit

Cost of goods sold for the nine months ended September 30, 2021 was $23,146,503, a decrease of $1,830,898 compared to the nine months ended September 30, 2020 of $24,977,401, driven by higher throughput across all markets decreasing fixed cost per unit.

Gross profit for the nine months ended September 30, 2021 was $17,643,718, representing a gross margin of 43%. This is compared to gross profit for the nine months ended September 30, 2020 of $11,832,313 or a 32% 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 $3.5 million due to increased sales driven by the addition of four new dispensaries relative to September 30, 2020. Additionally, the New York market saw gross profit expansion of approximately $1.5 million driven by increased wholesale sales during the nine months ended September 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 nine months ended September 30, 2021 were $30,134,871, a decrease of $2,510,935 compared to total expenses of $32,645,806 for the nine months ended September 30, 2020. The decrease in total expenses was attributable to a decrease in stock- based compensation expenses of approximately $7.7 million partially offset by increase general and administrative expenses of $4.8 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 nine months ended September 30, 2021 was $(12,491,153), a decrease of $8,322,340 compared to $(20,813,493) for the nine months ended September 30, 2020.

Total Other Income (Expense)

Total other expense for the nine months ended September 30, 2021 was $(3,249,254), a change of $10,186,395 compared to other income of $6,937,141 for the nine months ended September 30, 2020. The change is primarily attributable to the gain on the disposal of PAMS during the three months ended September 30, 2020, of $16,884,173.

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 nine months ended September 30, 2021, tax expense totaled $2,970,000 compared to a tax expense of $6,800,000 for the nine months ended September 30, 2020. The decrease in tax expense is primarily attributable to the gain on the disposal of PAMS during the nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	$ (6,243,231)	$ 2,952,004	$ (18,710,407)	$ (20,676,352)
Interest expense, net	2,254,553	1,255,656	6,037,057	4,249,090
Income taxes	560,000	6,003,000	2,970,000	6,800,000
Depreciation & Amortization	304,540	191,453	1,135,234	722,462
Depreciation included in cost of goods sold	691,662	699,432	1,678,558	1,757,281
EBITDA (non-GAAP)	$ (2,432,476)	$ 11,101,545	$ (6,889,558)	$ (7,147,519)
Derivative (Gain) Loss	(627,165)	4,066,335	(2,317,065)	5,032,537
Inventory adjustment	351,000	151,328	464,000	484,570
Share-based compensation	835,122	524,052	4,557,777	12,245,412
Severance Expense	—	—	—	339,997
Loss on assets held for sale	—	446,544	—	446,544
Gain on sale of discontinued operations	—	(16,884,173)	(437,107)	(16,884,173)
Adjusted EBITDA (non-GAAP)	$ (1,873,519)	$ (594,369)	$ (4,621,953)	$ (5,482,632)

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 nine month period ended September 30, 2021.

Cash Used in Operating Activities

Net cash used in operating activities was $22.7 million for the nine months ended September 30, 2021, an increase of $11.7 million as compared to the nine months ended September 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 nine months ended September 30, 2021, compared to stable inventory levels and an increase in accounts payable and accrued liabilities during the nine months ended September 30, 2020.

Cash Used in Investing Activities

Net cash used in investing activities was $13.4 million for the nine months ended September 30, 2021, compared to net cash provided by investing activities of $13.3 million for the nine months ended September 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, as well as the divestiture of the Company's PAMS subsidiary in the third quarter of 2020.

Cash Provided by Financing Activities

Net cash provided by financing activities was $22.4 million for the nine months ended September 30, 2021, an increase of $16.1 million as compared to the nine months ended September 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 September 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 September 30, 2021, we operated 18 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 September 30, 2021	Finance Leases September 30, 2021	Total
2021	$ 612,193	$ 1,023,262	$ 1,635,455
2022	2,471,751	7,383,555	9,855,306
2023	2,372,611	10,419,836	12,792,447
2024	2,068,139	10,466,735	12,534,874
2025	1,830,420	10,710,227	12,540,647
Thereafter	3,995,745	216,469,417	220,465,162
Total minimum lease payments	$ 13,350,859	$ 256,473,032	$ 269,823,891
Less discount to net present value			(189,813,692)
Present value of lease liability			$ 80,010,199

ADDITIONAL INFORMATION

Outstanding Share Data

As of November 8, 2021, we had 80,006,508 shares issued and outstanding, consisting of the following:

(a) *Subordinate voting shares*

79,538,377 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*

402,720 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 September 30, 2021, we have 23,610,886 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 that recent growth investments, along with the successful execution of our core market strategy, will yield organic revenue growth for the foreseeable future. We believe that 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 over time. Furthermore, recent efforts to scale production and expand our retail footprint could lead to a substantial improvement in financial performance through 2022 and beyond, 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-landlocked 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, recently acquired option to purchase an additional 20 acres in Minnesota for future expansion, and ongoing expansion projects in New York demonstrate our large-scale approach to production.

Consistent with a focus on driving profitable growth across our various markets, we are in the process of making further investments in capital expenditures to improve scale with additional facility build outs as our markets continue expanding. Specifically, we have begun construction on a 324,000 square foot indoor cultivation and processing facility in New York, which is being financed entirely through a real estate partner following the execution of a sale-leaseback transaction during the third quarter of 2021. We have been approved by the state to complete 170,000 square feet of this facility, and anticipate completion of this project during the second quarter of 2022.

In Arizona, we completed construction of a second nine-acre shade house adjacent to our existing operations, bringing our total cultivation capacity in the state to approximately 18 acres. We also plan to add a 30,000 square foot processing facility to the property in Arizona. In Maryland, we began 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 previously anticipated these expansion projects in Arizona and Maryland would be completed by the end of 2021, but we have opted to pause construction of these projects as we align development timing with the demand growth we are experiencing in these markets.

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. We are also evaluating the rebranding of our retail stores in New York as we consider expansion from four to eight dispensaries, but the timing of these initiatives will depend upon the timeline for commencement of adult use sales in the state, as well as regulatory approval of the incremental dispensaries.

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 in 2022 via legislation and/or a ballot initiative. 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.

Following our recent decision to divest our Arizona licenses and Phoenix dispensary in order to focus solely on the wholesale market in Arizona, as well as uncertainty surrounding the start date of adult-use sales in the state of New York, we have revised our previous outlook ranges for financial performance in fiscal year 2022. We now expect fiscal year 2022 revenues to be in the range of $100 to $120 million, and adjusted EBITDA in the range of $20 to $30 million. The achievement of these ranges will depend upon several factors, including the Company's ability to achieve expected cultivation yields and quality, the timing and availability of funding to complete various development projects, regulatory timelines, the timing of the commencement and performance of adult-use sales in New Mexico and New York, and the timing of the commencement and magnitude of flower sales in the Minnesota medical market.

We expect net capex, excluding financing from real estate partners, to be in the range of approximately $15 to $20 million through 2022. We expect to open an additional four Green Goods® retail dispensaries in New York prior to the start of adult use sales in that state and we expect to add additional stores in New Mexico through the end of 2022. Assuming timely completion of the planned development projects and that the timing of regulatory changes is as we anticipate, we expect to generate 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 September 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 nine months ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.