Item 8. Financial Statements and Supplementary Data

DAVIDSON & COMPANY LLP — Chartered Professional Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
Goodness Growth Holdings, Inc. (formerly Vireo Health International, Inc.)

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Goodness Growth Holdings, Inc. (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of net loss and comprehensive loss, changes in stockholders' equity, and cash flows for the years ended December 31, 2021 and 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years ended December 31, 2021 and 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2018.

/s/ Davidson & Company LLP

Vancouver, Canada — Chartered Professional Accountants

March 14, 2022

GOODNESS GROWTH HOLDINGS, INC.
Consolidated Balance Sheets (In U.S Dollars)

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash	$ 15,155,279	$ 25,513,180
Restricted cash	—	1,592,500
Accounts receivable, net of allowance for doubtful accounts of $572,080 and $132,490, respectively	4,502,469	696,994
Inventory	20,422,061	12,644,895
Prepayments and other current assets	1,560,113	1,552,278
Notes receivable	—	293,700
Deferred acquisition costs	—	28,136
Assets Held for Sale	—	4,596,445
Deferred financing costs	—	120,266
Total current assets	41,639,922	47,038,394
Property and equipment, net	99,488,559	30,566,259
Operating lease, right-of-use asset	8,510,499	8,163,844
Notes receivable, long-term	3,750,000	3,750,000
Intangible assets, net	10,184,289	8,409,419
Goodwill	183,836	3,132,491
Deposits	1,718,206	1,412,124
Deferred tax assets	1,495,000	157,000
Total assets	$ 166,970,311	$ 102,629,531
Liabilities		
Current liabilities		
Accounts Payable and Accrued liabilities	$ 14,805,473	$ 13,477,303
Right of use liability	1,600,931	857,294
Convertible notes, net of issuance costs	—	900,000
Long-Term debt, current portion	—	1,110,000
Liabilities held for sale	—	3,595,301
Total current liabilities	16,406,404	19,939,898
Right-of-use liability	80,228,097	20,343,063
Long-Term debt	27,329,907	—
Total liabilities	$ 123,964,408	$ 40,282,961
Commitments and contingencies (refer to Note 20)		
Stockholders' equity		
Subordinate Voting Shares ($- par value, unlimited shares authorized; 81,298,228 shares issued and outstanding)	—	—
Multiple Voting Shares ($- par value, unlimited shares authorized; 402,720 shares issued and outstanding)	—	—
Super Voting Shares ($- par value; unlimited shares authorized; 65,411 shares issued and outstanding, respectively)	—	—
Additional Paid in Capital	178,429,422	164,079,614
Accumulated deficit	(135,423,519)	(101,733,044)
Total stockholders' equity	$ 43,005,903	$ 62,346,570
Total liabilities and stockholders' equity	$ 166,970,311	$ 102,629,531

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

GOODNESS GROWTH HOLDINGS, INC.
Consolidated Statements of Net Loss and Comprehensive Loss (In U.S. Dollars)

	2021	2020
Revenue	$ 54,446,168	$ 49,211,329
Cost of sales		
Product costs	32,006,403	31,109,224
Inventory valuation adjustments	2,641,080	974,384
Gross profit	19,798,685	17,127,721
Operating expenses:		
Selling, general and administrative	33,655,780	26,365,182
Stock-based compensation expenses	5,182,641	12,777,474
Depreciation	624,613	413,092
Amortization	817,215	615,095
Total operating expenses	40,280,249	40,170,843
Loss from operations	(20,481,564)	(23,043,122)
Other income (expense):		
Impairment of long-lived assets	(5,169,951)	—
Loss on sale of property and equipment	—	(13,800)
Gain on disposal of assets	6,903,039	20,253,177
Derivative gain (loss)	—	(6,260,480)
Interest expenses, net	(10,575,370)	(5,095,848)
Other income (expenses)	(244,629)	7,879
Other income (expenses), net	(9,086,911)	8,890,928
Loss before income taxes	(29,568,475)	(14,152,194)
Current income tax expenses	(5,460,000)	(7,427,000)
Deferred income tax recoveries	1,338,000	(1,363,000)
Net income (loss) and comprehensive income (loss)	(33,690,475)	(22,942,194)
Net income (loss) per share - basic and diluted	$ (0.27)	$ (0.24)
Weighted average shares used in computation of net income (loss) per share - basic & diluted	123,814,521	97,551,146

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

GOODNESS GROWTH HOLDINGS, INC.
Consolidated Statements of Stockholders' Equity
(In U.S. Dollars)

	Common Stock								
	SVS		MVS		Super Voting Shares				Total
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Stockholders' Equity
Balance, January 1, 2020	23,684,411	$ —	549,927	$ —	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
Warrants exercised	13,651,574	—	—	—	—	—	19,673,006	—	19,673,006
Options exercised	—	—	4,200	—	—	—	79,800	—	79,800
Options exercised	75,000	—	—	—	—	—	14,250	—	14,250
Stock-based compensation	—	—	—	—	—	—	12,777,474	—	12,777,474
Net loss	—	—	—	—	—	—	—	(22,942,194)	(22,942,194)
Balance at December 31, 2020	51,062,559	$ —	554,127	$ —	65,411	$ —	$ 164,079,614	$ (101,733,044)	$ 62,346,570
Balance, January 1, 2021	51,062,559	—	554,127	—	65,411	—	$ 164,079,614	$ (101,733,044)	$ 62,346,570
Conversion of MVS shares	15,140,700	—	(151,407)	—	—	—	—	—	—
Shares issued in Nevada acquisition	1,050,000	—	—	—	—	—	1,385,239	—	1,385,239
Shares issued in Charm City acquisition	1,459,803	—	—	—	—	—	1,367,590	—	1,367,590
Options exercised	4,289,392	—	—	—	—	—	1,209,605	—	1,209,605
Warrants exercised	7,110,481	—	—	—	—	—	—	—	—
Warrants issued in financing activities	—	—	—	—	—	—	5,395,759	—	5,395,759
Stock-based compensation	1,185,293	—	—	—	—	—	4,991,615	—	4,991,615
Net Loss	—	—	—	—	—	—	—	(33,690,475)	(33,690,475)
Balance at December 31, 2021	81,298,228	$ —	402,720	$ —	65,411	$ —	$ 178,429,422	$ (135,423,519)	$ 43,005,903

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

GOODNESS GROWTH HOLDINGS, INC.
Consolidated Statements of Cash Flows
(In U.S. Dollars, except for per share data)

	December 31, 2021	December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (33,690,475)	$ (22,942,194)
Adjustments to reconcile net loss to net cash used in operating activities:		
Inventory valuation adjustments	2,641,080	974,384
Depreciation	624,613	413,092
Depreciation capitalized into inventory	2,404,711	2,067,991
Non-cash operating lease expense	1,005,754	1,243,047
Amortization of intangible assets	817,215	615,095
Stock-based payments	5,182,641	12,777,474
Interest Expense	2,687,693	—
Impairment of long-lived assets	5,169,951	—
Deferred income tax	(1,338,000)	1,363,000
Deferred Gain/Loss Sale Leaseback	—	30,481
Accretion	1,932,316	544,492
Loss on Sale of Property and Equipment	—	13,800
Derivative (Gain) Loss	—	6,260,480
Gain on disposal of AZ Dispensary	(6,465,932)	—
Gain on disposal of OMS	(437,107)	—
Gain on disposal of PDS	—	(3,402,794)
Gain on disposal of business MWH	—	(7,038)
Gain on disposal of business PAMS	—	(17,116,068)
Loss on disposal of business HG	—	272,723
Change in operating assets and liabilities:		
Accounts Receivable	(3,488,926)	(396,974)
Prepaid expenses	8,996	462,083
Inventory	(10,347,840)	(2,661,090)
Accounts payable and accrued liabilities	2,651,270	8,680,476
Change in assets and liabilities held for sale	124,843	(124,843)
Net cash used in operating activities	$ (30,517,197)	$ (10,932,383)
CASH FLOWS FROM INVESTING ACTIVITIES:		
PP&E Additions	$ (18,043,946)	$ (8,449,097)
Proceeds from sale of AZ Dispensary net of cash	15,125,010	—
Proceeds from sale of PAMS net of cash	—	16,408,411
Proceeds from sale of PDS net of cash	—	4,745,294
Proceeds from sale of HG net of cash	—	(17,945)
Acquisition of Charm City	(3,543,830)	—
Acquisition of MJ Distributing	(1,592,500)	—
Proceeds from sale of OMS net of cash	1,150,000	—
Deposits	(306,082)	249,008
Net cash provided by (used in) investing activities	$ (7,211,348)	$ 12,935,671
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	$ —	$ 7,613,490
Deferred financing costs	-	(120,266)
Proceeds from long-term debt, net of issuance costs	27,108,239	—
Convertible debt payment	(900,000)	—
Proceeds from option exercises	1,209,605	94,050
Proceeds from warrant exercises	-	9,857,498
Debt principal payments	(60,000)	—
Lease principal payments	(1,579,700)	(1,576,553)
Net cash provided by financing activities	$ 25,778,144	$ 15,868,219
Net change in cash and restricted cash	$ (11,950,401)	$ 17,871,507
Cash and restricted cash, beginning of period	$ 27,105,680	$ 9,234,173
Cash and restricted cash, end of period	$ 15,155,279	$ 27,105,680

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

GOODNESS GROWTH HOLDINGS, INC.
Notes to Consolidated Financial Statements

1. Description of Business and Summary

Goodness Growth Holdings, Inc. ("**Goodness Growth**" or the "**Company**") (formerly, Vireo Health International, Inc.) was incorporated under the Alberta Business Corporations Act on November 23, 2004. 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/or 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, and formerly in Ohio, which was disposed of on March 31, 2021, through its subsidiaries.

While marijuana and CBD-infused products are legal under the laws of several U.S. states (with vastly differing restrictions), the United States Federal Controlled Substances Act classifies all "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. Recently some federal officials have attempted to distinguish between medical cannabis use as necessary, but recreational use as "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. During 2021, the Company's revenue, gross profit and operating income were not negatively impacted by COVID-19 and the Company generally maintained the consistency of its operations. However, the uncertain nature of the spread of COVID-19 may impact its business operations for reasons including the potential quarantine of Goodness Growth employees or those of its supply chain partners.

2. Summary of Significant Accounting Policies

Basis of presentation and going concern

The accompanying consolidated financial statements reflect the accounts of the Company. The consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States ("**GAAP**") and pursuant to the rules and regulations of the United States Securities and Exchange Commission ("**SEC**").

These consolidated financial statements have been prepared on a going concern basis, which assumes that 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 year ended December 31, 2021, the Company reported a net loss of $33,690,475 and a net loss of $22,942,194 for the year ended December 31, 2020.

For the years ended December 31, 2021 and 2020, the Company had negative cash flows used in operating activities of $30,517,197 and $10,932,383, respectively.

As of December 31, 2021 and 2020, the Company had working capital of $25,233,518 and $27,098,496 respectively, reflecting a decrease in working capital of $1,864,978 for the year ended December 31, 2021.

Current management forecasts and related assumptions support the view that the Company can adequately manage the operational needs of the business. These management forecasts and assumptions support the Company's ability to meet its contractual obligations such as payments of principal and interest on the outstanding notes payable and the Company's lease commitments.

These 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 consolidated financial statements include the accounts of the following entities wholly owned, or effectively controlled by the Company for the year ended December 31, 2021:

Name of entity	Place of incorporation
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
EHF Cultivation Management, 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 financial statements of the Company.

During the year ended December 31, 2021, Ohio Medical Solutions, Inc. was removed as a result of a business disposition, and Vireo Health of Nevada 1, LLC, and Vireo of Charm City, LLC, were acquired. Refer to Note 3 for further details on business dispositions.

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. 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 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 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, estimated redemption rates on loyalty sales programs, estimated paid time off redemption rates, 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, 2021, the Company completed two divestitures, further described in Note 3. Management considered the quantitative results of the divested entities as well as qualitative strategic considerations to judge whether the two divestitures constitute a discontinued operation. Management does not believe either 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.

Definition of a business – Determination of what constitutes a business for purposes of acquisition accounting requires significant judgement. ASC 805 notes that if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business. However, the exact quantitative threshold is not explicitly defined. During the year ended December 31, 2021, the Company completed two acquisitions, further described in Note 3. Management determined that substantially all of the fair value of the assets acquired was concentrated in the licenses acquired, and as such they should be treated as asset acquisitions.

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 consolidated 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 years ending December 31, 2021 and 2020 were as follows:

	December 31,	
	2021	2020
Stock options	23,226,338	26,924,858
Warrants	4,395,949	17,121,411
Convertible notes	—	211,765
Total	27,622,287	44,258,034

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 that 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, and accrued liabilities approximate their fair value due to their short-term nature, and the carrying value of notes receivable and long-term 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 cannabis work-in-process, cannabis finished goods and other inventory. Work-in-process inventory includes cannabis plants, bulk harvested material, and various bulk oils and extracts. Finished goods include packaged flower and extracts. Other inventory includes product packaging, hemp derived CBD, apparel, and paraphernalia.

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 record 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 thirty-nine, 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 completed 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. Intangible assets acquired in a business combination are measured at fair value on the acquisition date.

Amortization of definite life intangible assets is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Licenses	15-20 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 annually or 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

The Company's primary source of revenue is from wholesale of cannabis products to dispensary locations and direct retail sales to eligible customers at the Company-owned dispensaries. Substantially all of the Company's retail revenue is from the direct sale of cannabis products to medical customers.

The following table represents the Company's disaggregated revenue by source:

	Years Ended December 31, 2021	2020
Retail	$ 44,692,385	$ 37,236,301
Wholesale	9,753,783	11,972,314
Other	—	2,714
Total	$ 54,446,168	$ 49,211,329

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. More specifically, wholesale revenues are recognized upon delivery and acceptance by wholesale customers. Retail revenues are recognized at the point of sale. Discounts are recorded at the time of revenue recognition. Returns were not material during the years ended December 31, 2021 and 2020, but are recognized when the customer is refunded. Revenues are presented net of discounts and returns.

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, as well as the Company's historical volatility.

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 management. The Company does not estimate forfeiture rates when calculating compensation expense. The Company records forfeitures as they occur.

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

In October of 2021 FASB issued ASU 2021-08 Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The update is intended to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to the recognition of an acquired contract liability and payment terms and their effect on subsequent revenue recognized by the acquirer. The required date of adoption is January 1, 2023, and the Company is evaluating potential future impacts on the Company's financial statements.

In November of 2021 FASB issued ASU 2021 -10 - Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance. The update is intended to increase the transparency of government assistance including the disclosure of the types of assistance, an entity's accounting for the assistance, and the effect of the assistance on an entity's financial statements. The required date of adoption is January 1, 2022, and the Company is evaluating potential future impacts on the Company's financial statements.

3. Business Combinations and Dispositions

Dispositions

On October 1, 2020, the Company reached a definitive agreement with Ayr Strategies Inc. ("**Ayr**") to sell all of the assets and liabilities of its affiliated company, Ohio Medical Solutions, Inc. ("**OMS**") for $1,150,000 in cash. Assets and liabilities relating to OMS were classified as "held for sale" as of December 31, 2020. 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 $712,894. Consideration received exceeded OMS's net assets at the time of sale, resulting in a gain of $437,106 which was recorded in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2021.

On November 1, 2021, subsidiaries and an affiliate of the Company entered into a Purchase Agreement with subsidiaries and an affiliate of Copperstate Farms, LLC ("Copperstate") pursuant to which the Company sold its Phoenix dispensary and cultivation licenses, dispensary inventory and equipment, dispensary lease, and all dispensary revenue-producing contracts to Copperstate (the "Transaction"). On November 18, 2021, the Transaction closed. Cash consideration received of $15,125,010 exceeded net assets transferred of $8,659,077 resulting in a gain of $6,465,933 which was recorded in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2021.

On June 22, 2020, the Company reached a definitive agreement with Jushi Inc, a subsidiary of Jushi Holdings, Inc. ("**Jushi**"), to divest all the equity in its subsidiary company, Pennsylvania Medical Solutions, LLC ("**PAMS**"). On August 11, 2020, the Company completed the sale of its equity in PAMS to Jushi, for consideration of $20,320,936 including a $3,750,000 four-year note with an 8 percent coupon rate payable quarterly. As part of this transaction, the Company transferred assets and liabilities with a net book value of 3,204,868. Consideration received exceeded PAMS net assets at the time of sale, resulting in a gain of $17,116,068 which was recorded in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2020.

In July of 2020, the Company divested all the equity in its subsidiary company, Midwest Hemp Research, LLC, to the CEO of the Company. Prior to the disposition, the Company had $50,000 in outstanding convertible notes associated with the initial acquisition of Midwest Hemp, and had recorded an intangible asset of $50,000 on the balance sheet. Upon divestiture these outstanding convertible notes and accrued interest with a balance of $52,038 were cancelled, and the intangible asset with a net book value of $45,000 was disposed of, resulting in a gain of $7,038.

On September 11, 2020, the Company divested all the equity in its subsidiary company, High Gardens, Inc., in exchange for a 10% royalty on all future net revenues generated by High Gardens, Inc. The fair value of this royalty consideration was $68,276 and is classified as an intangible asset with an indefinite life on the balance sheet. This consideration received was less than High Gardens, Inc. net assets of $340,999 at the time of sale, resulting in a loss of $272,723 which was recorded in the statement of loss and comprehensive loss for the year ended December 31, 2020. As described above, this asset was subsequently disposed in September 2020.

On December 17, 2020, the Company divested all the equity in its subsidiary company, Pennsylvania Dispensary Solutions, LLC, to Jushi in exchange for consideration of $5,726,848 cash. Consideration received exceeded PAMS net assets of $2,324,054 at the time of sale, resulting in a gain of $3,402,794 which was recorded in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2020.

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, $1,385,239 associated with the fair value of the subordinate voting shares issued, and $28,136 of deferred acquisition costs, was equal to the fair value of the intangible asset acquired, or $3,005,875. The related operating results are included in the accompanying consolidated statements of operations, changes in shareholders' equity, and statement of cash flows commencing from the date of acquisition.

Acquisition of the Assets of Charm City Medicus, LLC

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, and closed the transaction on November 19, 2021. Consideration paid totaled $7,219,713 consisting of 1,459,803 subordinate voting shares with a fair value of $1,367,590, a $2,000,000 note payable bearing an interest rate of 8%, cash of $3,491,865, an unpaid cash consideration of $308,294, and transaction costs of $51,964. Consideration paid exceeded net assets acquired of $35,131. The excess consideration paid of $7,184,583 was equal to the fair value of the intangible asset acquired. The related operating results are included in the accompanying 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 December 31, 2021 and 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
December 31, 2021				
Cash	$ 15,155,279	$ —	$ —	$ 15,155,279
Total assets	$ 15,155,279	$ —	$ —	$ 15,155,279
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

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, goodwill, 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, 2021, the carrying values of property and equipment and intangible assets and were concluded to exceed their fair values. As a result, the Company recorded impairment charges that incorporates fair value measurements based on Level 3 inputs (refer to Notes 10 & 13). No impairment was determined necessary for the year ended December 31, 2020.

The carrying value of the Company's accounts receivable, accounts payable, and accrued liabilities approximate their fair value due to their short-term nature, and the carrying value of notes receivable and long-term debt approximates fair value as they bear a market rate of interest.

5. Accounts Receivable

Trade receivables are comprised of the following items:

	December 31, 2021	December 31, 2020
Trade receivable	$ 1,251,699	$ 486,807
Tenant improvements receivable	—	127,160
Tax withholding receivable	3,208,270	—
Other	42,500	83,027
Total	$ 4,502,469	$ 696,994

Included in the trade receivables, net balance at December 31, 2021, and 2020, is an allowance for doubtful accounts of $215,606 and $132,490, respectively. Included in the tax withholding receivable, net balance at December 31, 2021 is an allowance for doubtful accounts of $356,474.

6. Notes Receivable

As of December 31, 2021, and 2020, the Company had a total of $3,750,000 and $4,043,700, respectively, in notes receivable. The balances are comprised primarily of the $3,750,000 four-year note with an 8% coupon rate payable quarterly obtained as part of the PAMS disposition further described in Note 3.

7. Inventory

Inventory is comprised of the following items:

	December 31, 2021	December 31, 2020
Work-in-progress	$ 15,167,522	$ 8,317,502
Finished goods	4,580,158	3,980,900
Other	674,381	346,493
Total	$ 20,422,061	$ 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:

	December 31,	
	2021	2020
Work-in-progress	$ 1,949,811	$ 381,401
Finished goods	691,269	592,983
Total	$ 2,641,080	$ 974,384

During the years ended December 31, 2021 and 2020, the Company recorded write downs to net realizable value in its Maryland and Arizona subsidiaries. Based on the market sales price relative to the cost to produce certain inventories, these costs could not be recovered, and as a consequence net realizable value was less than carrying value of inventory. Additionally, the Company recorded inventory reserves related to expected future spoilage of inventory. Accordingly, inventory valuation adjustments amounting to $2,641,080 and $974,384 were recorded in 2021 and 2020 respectively.

8. Prepayments and other current assets

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

	December 31, 2021	December 31, 2020
Prepaid Insurance	$ 838,612	$ 921,600
Other Prepaid Expenses	721,501	630,678
Total	$ 1,560,113	$ 1,552,278

9. Deferred Acquisition Costs

As of December 31, 2021, and 2020, the Company had a total of $0 and $28,136 respectively in deferred acquisition costs relating to the acquisition of MJ Distributing (Note 3), which had closed as of December 31, 2020.

10. Property and Equipment, Net

Property and equipment, net consisted of the following:

	December 31, 2021	December 31, 2020
Land	$ 1,366,650	$ 1,309,949
Buildings and leasehold improvements	15,529,928	7,280,665
Furniture and equipment	7,962,363	4,635,602
Software	221,540	221,540
Vehicles	513,135	379,852
Construction-in-progress	10,510,166	9,276,852
Right of use asset under finance lease	71,078,655	12,351,838
	107,182,437	35,456,298
Less: accumulated depreciation	(7,693,878)	(4,890,039)
Total	$ 99,488,559	$ 30,566,259

For the year ended December 31, 2021 and 2020, total depreciation on property and equipment was $3,029,324 and $2,481,083, respectively. For the year ended December 31, 2021 and 2020, accumulated amortization of the right of use asset amounted to $2,513,223 and $2,025,239, respectively. For the year ended December 31, 2021 and 2020, the right of use asset under finance lease of $71,078,655 and 12,351,838, respectively, consists of leased processing and cultivation premises, and leased equipment. The Company capitalized into inventory $2,404,711 and $2,067,991 relating to depreciation associated with manufacturing equipment and production facilities as of December 31, 2021 and 2020, respectively. The capitalized depreciation costs associated are added to inventory and expensed through Cost of Sales Product Cost on the consolidated statements of net loss.

As of December 31, 2021, the Company evaluated whether property and equipment showed any indicators of impairment, and it was determined that the recoverable amount of certain net assets was below book value. As a result, the Company recorded an impairment charge of $3,064,468 (2020 - $0) on property and equipment, net.

11. Leases

Components of lease expenses are listed below:

	December 31, 2021	December 31, 2020
Finance lease cost		
Amortization of ROU assets	$ 947,177	$ 1,226,024
Interest on lease liabilities	5,206,540	4,935,602
Operating lease expense	2,581,665	2,562,874
Total lease expenses	$ 8,735,382	$ 8,724,500

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

	Operating Leases December 31, 2021	Finance Leases December 31, 2021	Total
2022	$ 2,521,238	$ 7,143,575	$ 9,664,813
2023	2,470,614	10,492,227	12,962,841
2024	2,194,068	10,597,822	12,791,890
2025	1,979,678	10,683,979	12,663,657
2026	1,557,311	11,001,044	12,558,355
Thereafter	2,625,449	206,379,022	209,004,471
Total minimum lease payments	$ 13,348,358	$ 256,297,669	$ 269,646,027
Less discount to net present value	(4,653,945)	(183,163,054)	(187,816,999)
Present value of lease liability	$ 8,694,413	$ 73,134,615	$ 81,829,028

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

On September 24, 2021, the Company signed a third amendment to the existing lease agreements for the cultivation and processing facilities in New York. Under the terms of the amendment, the term of the lease was extended to September 23, 2041, and provides for additional tenant improvements up to $49,435,000. The amended agreement for the cultivation and processing facility in New York increased base rent by $492,625. This base rent increase will be phased in over the sixteen months following the amendment date.

On April 10, 2020, the Company signed a fourth amendment to the existing lease agreements for the cultivation and processing facilities in Minnesota. Under the terms of the amendment, the term of the lease was extended to April 9, 2040, and provides for additional expansion and tenant improvements up to $6,698,183. The amended agreement for the cultivation and processing facility in Minnesota requires regular monthly payments of $129,350.

On April 10, 2020, the Company signed a second amendment to the existing lease agreements for the cultivation and processing facilities in New York. Under the terms of the amendment, the term of the lease was extended to April 9, 2035, and provides for additional tenant improvements up to $3,360,000. The amended agreement for the cultivation and processing facility in New York requires regular monthly payments of $90,519.

On January 14, 2020, the Company signed a second amendment to the existing lease agreements for the cultivation and processing facilities in Pennsylvania. Under the terms of the second amendment, the term of the lease was extended to December 7, 2038, and provides for additional tenant improvements of up to $8,336,670. The amended agreement for the cultivation and processing facility in Pennsylvania requires regular monthly payments of $182,419. On April 10, 2020, the Company signed a third amendment to the existing lease agreements for the cultivation and processing facilities in Pennsylvania. Under the terms of the amendment, tenant improvements were reduced to $8,036,670. The amended agreement for the cultivation and processing facility in Pennsylvania requires regular monthly payments of $184,786. This lease was transferred on the disposition of PAMS (Note 3).

Supplemental cash flow information related to leases

	December 31, 2021	December 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Lease principal payments	$ 1,579,700	$ 1,576,553
Non-cash additions to ROU assets	60,423,915	8,836,087
Amortization of operating leases	1,243,245	1,343,257

Other information about lease amounts recognized in the financial statements

	December 31, 2021	December 31, 2020
Weighted-average remaining lease term (years) – operating leases	5.53	6.76
Weighted-average remaining lease term (years) – finance leases	19.46	18.38
Weighted-average discount rate – operating leases	15.00 %	15.00 %
Weighted-average discount rate – finance leases	15.31 %	22.31 %

12. Goodwill

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

Goodwill - December 31, 2019 and 2020	$ 3,132,491
Dispositions	(2,948,655)
Goodwill - December 31, 2021	$ 183,836

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 annual impairment testing is December 31. On this date, the Company performed a qualitative test to determine whether it is necessary to perform a two-step goodwill impairment test.

After assessing the totality of the events and circumstances surrounding the performance and outlook of the Company's cash generating units with goodwill it was determined that it is more likely than not that the fair value of a reporting unit exceeds its carrying amount. As such, the first and second steps of the goodwill impairment test are unnecessary, and no impairment charge was taken.

13. Intangibles

During the year ended December 31, 2021, the Company acquired cannabis licenses in Nevada and Maryland. 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
Divestitures	(45,000)	—	(45,000)
Amortization	(615,094)	—	(615,094)
Balance, December 31, 2020	$ 8,341,143	$ 68,276	$ 8,409,419
Additions *(Note 3)*	10,190,458	—	10,190,458
Divestitures *(Note 3)*	(5,492,890)	—	(5,492,890)
Amortization	(817,215)	—	(817,215)
Impairment	(2,105,483)		(2,105,483)
Balance, December 31, 2021	$ 10,116,013	$ 68,276	$ 10,184,289

Amortization expense for intangibles was $817,215 and $615,094 during the years ending December 31, 2021 and 2020, respectively and is recorded in operating expenses on the Consolidated Statements of Net Loss and Comprehensive Loss. As of December 31, 2021, the Company evaluated whether intangible assets showed any indicators of impairment, and it was determined that the recoverable amount of the Company's Nevada license was below book value. The Company reviewed valuations of similar licenses held by peer companies, noting these valuations were substantially lower than the Company's book value of the Nevada licenses. The Company arrived at a valuation of the Nevada licenses that is in line with comparable licenses held be peer companies, and as a result, the Nevada licenses were impaired by $2,105,483.

The Company estimates that amortization expense will be $689,471 per year, for the next five years.

14. Accounts Payable and Accrued Liabilities

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

	December 31, 2021	December 31, 2020
Accounts payable – trade	$ 1,490,286	$ 900,929
Accrued Expenses	7,708,883	5,106,407
Taxes payable	5,196,677	7,227,245
Contract liability	409,627	242,722
Total accounts payable and accrued liabilities	$ 14,805,473	$ 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 December 28, 2021, the Company's promissory note payable in the amount of $1,110,000 was modified to extend the maturity date to December 31, 2023, and the Company paid off $60,000 in principal.

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"), and executed a draw of $26,000,000 in principal. 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 $1,083,422 which were paid in cash. 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 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.

On November 18, 2021, the Company and lender amended the Credit Facility to provide for an additional loan of $4,200,000 with a cash interest rate of 15% per annum and PIK interest of 2% and no warrants were issued in connection with this loan. Cash received net of $156,900 in financing costs was $4,043,100. Obligations under the Credit Facility are secured by substantially all the assets of the Company.

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

On November 19, 2021, the Company signed a promissory note payable in the amount of $2,000,000 in connection with the acquisition of Charm City Medicus, LLC (Note 3). The note bears an interest rate of 8% per annum with interest payments required due on the last day of each calendar quarter. The maturity date of the note is November 19, 2023, and the note is secured by 25% of the membership interests in Vireo Health of Charm City, LLC.

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

	December 31, 2021	December 31, 2020
Beginning of year	$ 1,110,000	$ 1,110,000
Proceeds	30,200,000	—
Note payable issued in Charm City acquisition (Note 3)	2,000,000	
Deferred financing costs	(8,607,786)	—
PIK interest	564,151	—
Amortization of deferred financing costs	2,123,542	—
Principal payments	(60,000)	—
End of period	27,329,907	1,110,000
Less: Current portion	—	(1,110,000)
Total long-term debt	$ 27,329,907	$ —

16. Derivative Liability

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 November 16, 2020, the Company announced the forced exercise of the warrants. The warrants were subsequently revalued prior to settlement using the Black Scholes options pricing model at $9,815,510 using the following assumptions: Share Price: $1.04; Exercise Price: $0.72; Expected Life: 2.44 years; Annualized Volatility: 90%; Dividend yield: 0%; Discount Rate: 0.13% - 0.18%; C$ Exchange Rate: 1.29 – 1.31. The resulting loss upon revaluation of $6,260,480 for the year ended December 31, 2020, is reflected in the statement of loss and comprehensive loss.

Upon settlement of the warrants, the Company received $9,857,498 million in cash, and extinguished the derivative liability of $9,815,510. Both the proceeds from the warrants, and the extinguishment of the derivative liability are included in Additional Paid in Capital on the balance sheet.

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 year ended December 31, 2021.

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

	December 31, 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, 2021. The liquidation and dividend rights are identical among Shares equally in our 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 will be 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 will be entitled to ten votes in respect of each Subordinate Voting Share into which such Super Voting Share could ultimately then be converted, which for greater certainty, shall initially equal one thousand votes per Super Voting Share. Each Super Voting share shall be convertible into one hundred Subordinate Voting Share

Shares Issued

During the year ended December 31, 2021, employee stock options were redeemed for 4,289,392 Subordinate Voting Shares. Proceeds from these transactions were $1,209,605.

During the year ended December 31, 2021, 151,407 Multiple Voting Shares were converted into 15,140,700 Subordinate Voting Shares.

On June 4, 2021, the Company issued 295,774 shares with a fair value of $604,876 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 consolidated statements of net loss and comprehensive loss for the year ended December 31, 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 $1,441,183 pursuant to an exemption from registration under the Securities Act. The fair value of the 889,519 subordinate voting shares issued of $1,441,183 was recorded as stock-based compensation expense in the consolidated statement of net loss and comprehensive loss for the year ended December 31, 2021. The Company did not receive any proceeds in connection with the warrant exercise or issuance of shares. The shares issued pursuant to the warrant exercise are free of trading restrictions; the additional 889,519 shares are subject to a holding period expiring on August 1, 2021. He was previously issued 15,000,000 warrants under his employment agreement and as part of the settlement, he surrendered all right, title, and interest in the remaining 5,000,000 warrants for cancellation.

On December 30, 2020, employee stock options were redeemed for 75,000 Subordinate Voting Shares. Proceeds from this transaction were $14,250 in cash.

On December 29, 2020, employee stock options were redeemed for 4,200 Multiple Voting Shares. Proceeds from this transaction were $79,800 in cash.

On November 16, 2020, the Company announced the forced exercise of the warrants issued in the March 9, 2020, non-brokered private placement transaction. Proceeds from this transaction were $9,857,498 in cash.

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. 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 Subordinate Voting Share. The Company has the right to force the holders of the Warrants to exercise the Warrants into Shares if, prior to the maturity date, the five-trading-day volume weighted-average price of the 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 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:

	December 31, 2021	December 31, 2020
Risk-Free Interest Rate	1.25 %	0.57 %
Weighted Average Exercise Price	$ 2.32	$ 0.99
Expected Life of Options (years)	7.00	7.07
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 Company for the years ended December 31, 2021 and 2020 is 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	(106,934)	1.23	—
Exercised	(4,289,392)	0.28	—
Granted	697,806	2.32	—
Options Outstanding at December 31, 2021	23,226,338	$ 0.56	6.02
Options Exercisable at December 31, 2021	17,640,936	$ 0.40	5.26

During the years ended December 31, 2021 and 2020, the Company recognized $2,945,557 and $1,674,806 in share-based compensation relating to stock options, respectively. As of December 31, 2021, the total unrecognized compensation costs related to unvested stock options awards granted was $2,467,167. In addition, the weighted average period over which the unrecognized compensation expense is expected to be recognized is approximately 2.4 years. The total intrinsic value of stock options outstanding and exercisable as of December 31, 2021, was $27,203,021 and $23,167,294, 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 Denominated in C$	December 31, 2021	December 31, 2020
Risk-Free Interest Rate	1.27 %	N/A
Expected Life of Options (years)	4.23	N/A
Expected Annualized Volatility	100.00 %	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	(7,110,481)	1.02	0.19
Expired	(763,111)	4.25	—
Forfeited	(7,889,519)	3.44	0.19
Warrants outstanding at December 31, 2021	—	$ —	—
Warrants exercisable at December 31, 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 December 31, 2021	3,037,649	$ 3.50	4.23
Warrants exercisable at December 31, 2021	3,037,649	$ 3.50	4.23

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 December 31, 2021	13,583	$ 194.66	0.64
Warrants exercisable at December 31, 2021	13,583	$ 194.66	0.64

During the year ended December 31, 2021, $0 (2020 - $10,981,157) in share-based compensation expense was recorded in connection with the SVS compensation warrants and $0 (2020 - $121,511) in share-based compensation was recorded in connection with the MVS warrants.

As of December 31, 2021, there were 150,000 SVS compensation warrants earned in connection with ongoing corporate advisory and financing services rendered, but not yet issued. The Company recorded $191,026 in share-based compensation expense and accounts payable and accrued liabilities in connection with these warrants as of December 31, 2021.

20. Commitments and Contingencies

Legal proceedings

On February 25, 2019, Dr. Mark Schneyer ("**Schneyer**") filed a lawsuit in Minnesota District Court, Fourth District (the "**Court**"), 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. The essence of the claims made by Schneyer is Vireo U.S. paid an inadequate price for MaryMed, LLC ("**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. Dorchester Management, LLC is an affiliated entity to Vireo U.S. and was previously used as a management company over Dorchester Capital, LLC. It no longer has active operations following Vireo Health, Inc.'s acquisition of MaryMed, LLC in 2017. It is owned and controlled by Kyle E. Kingsley and Amber H. Shimpa, executive officers and directors of Vireo U.S.

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 on May 1, 2021, recommending, among other things, that certain claims be permitted to proceed (the “**Remaining Derivative Claims**”) and other claims not be permitted to proceed by the Court (the “**Rejected Derivative Claims**”).

On July 7, 2021, Schneyer filed a Second Amended Complaint asserting direct claims on behalf of himself and the Remaining Derivative Claims on behalf of Capital and some Rejected Derivative Claims on behalf of Capital. Under Delaware law, Capital has a right to control the litigation of the Remaining Derivative Claims, the Rejected Derivative Claims, and any other derivative allegations that may be asserted on behalf of Capital. On August 17, 2021, Management exercised this right for Capital and appointed a second independent special litigation committee (the “**Second SLC**”), a partner at an international law firm, to manage the litigation of the claims raised in Schneyer’s Second Amended Complaint. On August 31, 2021, Capital filed a complaint at the Second SLC’s direction alleging the Remaining Derivative Claims and the Rejected Derivative Claims. Schneyer opposed the appointment of the Second SLC and the Court will rule on whether the Second SLC can pursue Second Amended Complaint.

On December 9, 2021, the Court dismissed Schneyer’s claim for rescissory damages and the Remaining Derivative Claim alleging fraud. The Court also ruled that the Remaining Derivative Claims should be pursued by the Second SLC. Finally, the Court also denied Schneyer’s request to seek punitive damages.

On February 22, 2022, the Minnesota Court of Appeals denied the immediate review of the December 9, 2021 order. Following this denial, the litigation will proceed with Schneyer’s three contract claims and a direct fraud claim against Management and Vireo U.S., as well as the Remaining Derivative Claims brought by Capital. Vireo U.S. filed a motion to discuss the Remaining Derivative Claims brought by Capital that remains pending before the Court.

Vireo U.S. believes that Schneyer’s claims lack merit and expects to be vindicated in the SLC process or, in the alternative, prevail in the litigation, if and when it proceeds. However, should Vireo U.S. 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:

	Years Ended December 31,	
	2021	2020
Salaries and benefits	$ 16,220,876	$ 12,657,679
Professional fees	3,751,899	3,027,168
Insurance expenses	2,777,027	3,772,689
Marketing	2,525,096	1,550,732
Other expenses	8,380,882	5,356,914
Total	$ 33,655,780	$ 26,365,182

22. Income Taxes

For financial reporting purposes, loss before income taxes includes the following components:

	Years Ended December 31,	
	2021	2020
United States	$ (29,568,475)	$ (14,152,194)
Total	$ (29,568,475)	$ (14,152,194)

The (recoveries) expenses for income taxes consists of:

	Year ended December 31,	
	2021	2020
Current:		
Federal	$ 4,484,000	$ 6,307,000
State	976,000	1,120,000
Total	5,460,000	7,427,000
Deferred:		
Federal	152,000	1,113,000
State	(1,490,000)	250,000
Total	(1,338,000)	1,363,000
Total	$ 4,122,000	$ 8,790,000

	Year ended December 31,	
	2021	2020
Loss before income taxes:	$ (29,568,475)	$ (14,152,194)
Income tax benefits at statutory rate	(6,209,380)	(2,996,351)
State Taxes	(2,400,960)	(1,426,834)
Non-deductible expenses	12,732,340	13,209,995
Stock based and other compensation	—	3,190
Income tax expense, net	$ 4,122,000	$ 8,790,000

The following table summarizes the components of deferred tax:

	2021	2020
Deferred assets		
Operating loss carryforwards - United States	$ 1,892,000	$ 1,526,000
Allowance for doubtful accounts	165,000	37,000
Accrued loyalty expense	—	—
Inventory reserve	628,000	175,000
Financing leases	553,000	385,000
Intangible assets	238,000	385,000
Property and equipment	578,000	
Capital loss carryforward	627,000	
Share based compensation	26,000	24,000
Total Deferred tax assets	4,707,000	2,532,000
Less valuation allowance	(1,535,000)	(395,000)
Net deferred tax assets	3,172,000	2,137,000
Deferred tax liabilities		
Property and equipment	—	—
Related party management fee receivables	594,000	880,000
Note Receivable	1,083,000	1,100,000
Deferred loss sale leaseback	—	—
Total deferred tax liabilities	1,677,000	1,980,000
Net deferred asset/(tax liabilities)	$ 1,495,000	$ 157,000

At December 31, 2021, the Company had United States federal net operating loss carryforwards of approximately $480,000 that can be carried forward indefinitely, and state net operating loss carryforwards of approximately $18,270,000 that can be carried forward fifteen years and limited in annual use to 100% of the current year taxable income.

The Company recognizes the financial statement impact of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest impact that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company recognizes interest and, if applicable, penalties (not included in the "unrecognized tax benefits" table above) for any uncertain tax positions. Interest and penalties are recorded as a component of income tax expenses. As of both December 31, 2021 and 2020, the Company had a cumulative balance of accrued interest and penalties on unrecognized tax positions of $0.

The Company's federal and state income tax returns are subject to examination by income taxing authorities, generally for three years after the returns are filed. The Company is not currently under examination in any jurisdiction for any period. The Company believes it is no longer subject to income tax examinations for fiscal periods ended prior to 2018.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was signed into law in response to the COVID-19 pandemic. The CARES Act provides numerous tax provisions and stimulus measures, including temporary changes regarding the prior and future utilization of net operating losses, temporary changes to the prior and future limitations on interest deductions, and technical corrections from prior tax legislation for tax depreciation of certain qualified improvement property. The Company has evaluated the provisions of the CARES Act relating to income taxes which will not result in material impact on its financial statements.

23. Supplemental Cash Flow Information[(1)]

	Year End December 31,	
	2021	2020
Cash paid for interest	$ 6,861,212	$ 5,861,204
Cash paid for income taxes	5,885,899	370,327
Change in construction accrued expenses	(1,787,111)	1,946,722
Non-cash investing		
Acquisition of Nevada through issuance of SVS	1,385,239	—
Acquisition of Nevada through restricted cash and deferred acquisition costs	1,620,636	—
Acquisition of Charm City through issuance of SVS	1,367,590	—
Acquisition of Charm City through issuance of note payable	2,000,000	—

(1) For supplemental cash flow information related to leases, refer to Note 10.

24. 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. Trade 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 Massachusetts, Maryland, 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, and intends, to adhere strictly to the 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 December 31, 2021, the Company's financial liabilities consist of accounts payable and accrued liabilities, debt. 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 investors and debt issuances. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity financing.

Legal Risk

Vireo U.S. operates in the United States. The United States 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 United States 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 accepted safety for the use of the drug under medical supervision. The United States Food and Drug Administration has not approved marijuana as a safe and effective drug for any indication. In the United States 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. The Company is not exposed to significant currency risk.

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. It is management's opinion that the Company is not exposed to significant interest rate risk.

25. Related Parties Transactions

As of December 31, 2021, and 2020, there were $98,750 and $0, respectively, due to related parties.

For the years ended December 31, 2021, and 2020, the Company paid a related party (Bengal Impact Partners, of which a member of the Board of Directors is a managing partner) $30,000 and $0, respectively, for ongoing corporate advisory services.

The Company recorded $191,026 in share-based compensation expense related to warrants earned by Bengal Impact Partners for ongoing corporate advisory services, but not yet issued.

For the years ended December 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 $126,896, respectively.

Certain directors and officers of the Company (Kyle Kingsley, Amber Shimpa, and Stephen Dahmer) owned OMS which was controlled by the Company through a management agreement. OMS 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

26. Subsequent Events

On January 31, 2022, we entered into an Arrangement Agreement (the "Arrangement Agreement") with Verano Holdings Corp. ("Verano"), pursuant to which Verano will acquire all of the issued and outstanding shares of Goodness Growth pursuant to a plan of arrangement (the "Plan of Arrangement") under the Business Corporations Act (British Columbia) (the "Arrangement"). Subject to the terms and conditions set forth in the Arrangement Agreement and the Plan of Arrangement, holders of Goodness Growth Shares will receive 0.22652 of a subordinate voting share of Verano (each a "Verano Subordinate Voting Share"), subject to adjustment as described below (the "Exchange Ratio"), for each Subordinate Voting Share held, and 22.652 Verano Subordinate Voting Shares for each Multiple Voting Share and Super Voting Share held, immediately prior to the effective time of the Arrangement. The Arrangement is subject to the approvals of the Supreme Court of British Columbia; receipt of U.S. regulatory approvals, including pursuant to the Hart–Scott–Rodino Antitrust Improvements Act and New York State regulatory requirements: and other customary conditions of closing.

In connection with the Arrangement Agreement, on January 31, 2022, Goodness Growth and certain of its subsidiaries, as borrowers (collectively, "Borrowers"), entered into a Third Amendment to their existing Credit Agreement with Chicago Atlantic Admin, LLC and the lenders party thereto (the "Third Amendment") providing for delayed draw term loans of up to $55 million (the "Delayed Draw Loans"). Subject to certain conditions to be satisfied prior to the initial funding thereunder, Goodness Growth may borrow a portion of the $55 million for working capital and other general corporate purposes and may borrow the remainder for other specific purposes, including relating to its ongoing expansion in New York. The Delayed Draw Loans have a maturity date of April 30, 2023 with an option to extend another 12 months for an additional fee of $1,375,000. The cash interest rate on the Delayed Draw Loans under the Third Amendment is equal to the U.S. prime rate plus 10.375%, with a minimum required rate of 13.375% per annum, in addition to paid-in-kind interest of 2.75% per annum. Pursuant to the Arrangement Agreement, Verano will reimburse Goodness Growth for all interest expenses related to the Third Amendment in excess of 10% per annum until the earlier of either the Effective Date or termination of the Arrangement Agreement (the "Interest Funding").

On March 3, 2022, the Company drew $4,075,000 in principal debt from the Delayed Draw Loans. Proceeds received, net of deferred financing fees of $1,075,000, were $3,000,000.

On March 3, 2022, there was a fourth amendment to the Credit Facility. This amendment provides that the Company will cause Verano to guarantee the Credit Facility if the Arrangement closes.