

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

*You should read the following discussion and analysis of our financial condition and results of operations together with the financial information and the notes thereto included in Part II, Item 8 of this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report on Form 10-K, including information with respect to our plans and strategy for our business and related financing, includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or “forward-looking information” within the meaning of Canadian securities laws. These statements are often identified by the use of words such as “expect,” “plan,” “expected,” “scheduled,” “estimates,” “estimated,” “forecasts,” “continue,” “continued,” “anticipate,” “will,” “expectations,” “cannot,” “could,” “believe,” “focused,” “intention,” “strategic,” “future,” “approach,” “strategy,” “efforts,” “potential,” “potentially,” “possible,” “may,” “intend,” “intended,” “intent,” “should,” “might,” “would,” “achieve,” “allowed to,” “over time,” “likely,” “remain,” “opportunities,” “seeking,” or the negative or plural of these words or similar expressions or variations. Such forward-looking statements and forward-looking information are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements or forward-looking information. Factors that could cause or contribute to such differences include, but are not limited to, those identified in this Annual Report on Form 10-K and those discussed in the section titled “Risk Factors” set forth in Part I, Item 1A of this Annual Report on Form 10-K and in our other SEC and Canadian public filings. In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Annual Report on Form 10-K and while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements. You should not rely upon forward-looking statements or forward-looking information as predictions of future events. Furthermore, such forward-looking statements or forward-looking information speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements or forward-looking information to reflect events or circumstances after the date of such statements.*

Amounts are presented in United States dollars, except as otherwise indicated.

### Overview of the Company

Goodness Growth Holdings, Inc. (“**Goodness Growth**” or the “**Company**”) is a physician-led, science-focused cannabis company striving to build long-term, sustainable value by bringing the best of medicine, science, and engineering to the cannabis industry. With our core operations strategically located in four limited-license markets through our subsidiaries, we cultivate and manufacture cannabis products and distribute these products through our growing network of Green Goods™ and other branded retail dispensaries as well as third-party dispensaries in the markets in which our subsidiaries hold operating licenses.

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

Resurgent Biosciences, Inc., a wholly-owned subsidiary of Goodness Growth, is a non-plant-touching entity that was formed with the intent of commercializing our intellectual property portfolio. This portfolio includes two patents for harm reduction in tobacco products as well as many other patent-pending opportunities that we believe could have potential to create additional value for our shareholders through licensing or other monetization.

While we are not currently focused on substantial capital investment or expansion outside of our core markets, we do own or effectively control additional non-core medical cannabis licenses or operations that may present opportunities for exploitation or divestiture in the future.

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.

### **Reverse Take Over (“RTO”) Transaction**

On March 18, 2019, Vireo Health, Inc., (“**Vireo U.S.**”) completed the RTO of Darien Business Development, Inc. (“**Darien**”) whereby Darien acquired all of the issued and outstanding shares of Vireo U.S. Following the completion of the RTO, the former shareholders of Vireo U.S. acquired control of the Company, as they owned a majority of the outstanding shares of the Company upon completion of the RTO.

The RTO was treated as a reverse recapitalization effected by a share exchange for financial accounting and reporting purposes since substantially all of Darien’s operations were disposed of as part of the consummation of the RTO and therefore no goodwill or other intangible assets were recorded by the Company as a result of the RTO. Vireo U.S. was treated as the accounting acquirer as its shareholders controlled the Company after the RTO, even though Darien was the legal acquirer. As a result, the historical assets, liabilities and operations that are reflected in these financial statements are those of Vireo U.S. as if Vireo U.S. had always been the reporting company.

### **Operating Segments**

We report our operating results in one business segment: the cultivation, production, and sale of cannabis. We cultivate, manufacture, and distribute cannabis products to third parties in wholesale markets and cultivate, manufacture, and sell cannabis products directly to approved patients and adult-use-customers in our owned or operated retail stores.

During the year ended December 31, 2021, the Company had operating revenue in six states: Arizona, Maryland, Minnesota, New Mexico, New York, and Ohio. Retail revenues were derived from sales in nineteen dispensaries throughout five states. We had one operational dispensary in Arizona, eight in Minnesota, four in New Mexico, four in New York, and two in Maryland. Wholesale revenues were derived from sales of products to third parties in the states of Arizona, Maryland, New York, and Ohio. During the year ended December 31, 2021, we divested our retail operation in Arizona, and the Ohio business.

### **COVID-19**

Since being declared a global pandemic on March 11, 2020, the spread of COVID-19 has severely impacted many local economies around the globe. Due to COVID-19, governments have imposed restrictions on travel and business operations, temporarily closed businesses, and implemented quarantines and shelter-in-place orders. Consequently, the COVID-19 pandemic has negatively impacted global economic activity, caused significant volatility and disruption in global financial markets, and generally introduced significant uncertainty and unpredictability throughout the world. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. 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.

## **Year ended December 31, 2021 Compared to the Year Ended December 31, 2020**

### ***Revenue***

We derived our revenue from cultivating, processing, and distributing cannabis products through our nineteen dispensaries in five states and our wholesale sales to third parties in four states. For the year ended December 31, 2021, 82% of the revenue was generated from retail dispensaries and 18% from wholesale business. For the year ended December 31, 2020, 76% of the revenue was generated from retail business and 24% from wholesale business.

For the year ended December 31, 2021, Minnesota operations contributed approximately 40% of revenues, New York contributed 25%, Arizona contributed 16%, New Mexico contributed 6%, and Maryland contributed 13%. For the year ended December 31, 2020, Minnesota operations contributed approximately 34% of revenues, New York contributed 23%, Arizona contributed 15%, New Mexico contributed 5%, Maryland contributed 8%, Ohio contributed 1%, and Pennsylvania contributed 14%.

Revenue for the year ended December 31, 2021, was \$54,446,168, an increase of \$5,234,839 or 11% compared to revenue of \$49,211,329 for year ended December 31, 2020. The increase is primarily attributable to revenue contributions from the retail business in Minnesota of \$5.3 million, the retail business in Maryland of \$3.3 million, and the wholesale business in New York of \$1.8 million, partially offset by the lack of revenues from the Pennsylvania retail and wholesale businesses, which were divested in 2020. Key revenue drivers were the opening of the Fredrick dispensary in Maryland in the first quarter of 2021, increased patient demand in Minnesota, which is primarily the result of four new dispensary openings that occurred in the fourth quarter of 2020, and a large New York bulk oil sale that occurred during 2021.

Retail revenue for the year ended December 31, 2021, was \$44,692,385, an increase of \$7,456,084 or 20% compared to retail revenue of \$37,236,301 for the year ended December 31, 2020, primarily due to revenue contributions from Minnesota and Maryland.

Wholesale revenue for the year ended December 31, 2021, was \$9,753,783, a decrease of \$2,218,531 compared to wholesale revenue of \$11,972,314 for year ended December 31, 2020. The decrease was primarily due to the divestiture of the Pennsylvania wholesale business in 2020.

	Year Ended December 31,		\$ Change	% Change
	2021	2020		
<b>Retail:</b>				
MN	\$ 21,795,356	\$ 16,506,418	\$ 5,288,938	32 %
NY	11,473,918	10,890,084	583,834	5 %
AZ	5,053,669	4,018,613	1,035,056	26 %
NM	3,100,803	2,349,826	750,977	32 %
MD	3,268,639	—	3,268,639	N.M.
PA	—	3,471,360	(3,471,360)	(100)%
<b>Total Retail</b>	<b>\$ 44,692,385</b>	<b>\$ 37,236,301</b>	<b>\$ 7,456,084</b>	<b>20 %</b>
<b>Wholesale:</b>				
AZ	\$ 3,519,835	\$ 3,555,184	\$ (35,349)	(1)%
MD	3,688,359	3,797,655	(109,296)	(3)%
NY	2,478,906	630,277	1,848,629	293 %
OH	66,683	467,331	(400,648)	(86)%
PA	—	3,521,867	(3,521,867)	(100)%
<b>Total Wholesale</b>	<b>\$ 9,753,783</b>	<b>\$ 11,972,314</b>	<b>\$ (2,218,531)</b>	<b>(19)%</b>
<b>Other:</b>				
RI Royalty	\$ —	\$ 2,714	\$ (2,714)	N.M.
<b>Total Revenue</b>	<b>\$ 54,446,168</b>	<b>\$ 49,211,329</b>	<b>\$ 5,234,839</b>	<b>11 %</b>
PA, OH, and AZ Retail Revenue	\$ (5,120,352)	\$ (11,479,171)	\$ 6,358,819	(55)%
<b>Total Revenue excluding PA, OH, and AZ Retail</b>	<b>\$ 49,325,816</b>	<b>\$ 37,732,158</b>	<b>\$ 11,593,658</b>	<b>31 %</b>

N.M. Not Meaningful

### ***Cost of Goods Sold and Gross Profit***

Cost of goods sold are determined from costs related to the cultivation and processing of cannabis and cannabis-derived products as well as the cost of finished goods inventory purchased from third parties.

Cost of goods sold for the year ended December 31, 2021, was \$34,647,483, an increase of \$2,563,875 compared to the year ended December 31, 2020 of \$32,083,608, driven most significantly by the product costs associated with the increase in revenues year over year, and an increase in inventory valuation adjustments driven by a significant and unusual weather period in Arizona.

Gross profit for the year ended December 31, 2021, was \$19,798,685, representing a gross margin of 36%. This is compared to gross profit for the year ended December 31, 2020, of \$17,127,721 or a 35% gross margin. The increase in margin was driven by increased retail revenue, which carries a higher margin, as a percentage of total revenue in 2021, partially offset by an increase in inventory valuation adjustments of \$1,666,696. The increase in inventory valuation adjustments was driven by a significant and unusual weather period in Arizona, which lead to increased obsolete inventory.

### ***Total Expenses***

Total expenses for the year ended December 31, 2021, were \$40,280,249, an increase of \$109,406 compared to total expenses of \$40,170,843 for the year ended December 31, 2020. The increase in total expenses was attributable to an increase in salaries and wages, professional fees, and general and administrative expenses of \$7.3 million, an increase in amortization and depreciation of \$0.4 million, offset by a decrease in share-based compensation of \$7.6 million. The

increase in salaries and wages, and general and administrative expenses was driven by significant operational buildout in existing markets, and the decrease in share-based compensation was driven by the lack of share-based compensation expense affiliated with warrant vesting in 2021.

#### ***Operating Loss before Income Taxes and Other Income (Expense)***

Operating loss before other income (expense) and provision for income taxes for the year ended December 31, 2021, was \$(20,481,564), a decrease of \$2,561,558 compared to operating income before other income (expense) and provision for income taxes of \$(23,043,122) for the year ended December 31, 2020.

#### ***Total Other Income (Expense)***

Total other expense for the year ended December 31, 2021, was (\$9,086,911), an increase of \$17,977,839 compared to other income of \$8,890,928 for the year ended December 31, 2020. The increase in other expense is primarily attributable to increased interest expense of \$5,479,522 in 2021 driven by the issuance of promissory notes, the impairment charge of \$5,169,951 related to long-lived assets, as well as the decrease in the gain on disposal of assets of \$13,350,138, partially offset by the 2020 derivative loss of \$6,260,480.

#### ***Provision for Income Taxes***

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the year ended December 31, 2021, Federal and State income tax expense totaled \$4,122,000 compared to a tax expense of \$8,790,000 for the year ended December 31, 2020. The 2020 expense is significantly impacted by the \$20.3 million gain affiliated with the divestiture of various subsidiaries.

### **Year ended December 31, 2020 Compared to the Year Ended December 31, 2019**

#### ***Revenue***

We derived our revenue from cultivating, processing, and distributing cannabis products through our seventeen dispensaries in five states and our wholesale sales to third parties in five states. For the year ended December 31, 2020, 76% of the revenue was generated from retail dispensaries and 24% from wholesale business. For the year ended December 31, 2019, 81% of the revenue was generated from retail business and 19% from wholesale business.

For the year ended December 31, 2020, Minnesota operations contributed approximately 34% of revenues, New York contributed 23%, Arizona contributed 15%, Pennsylvania contributed 14%, Maryland contributed 8%, New Mexico contributed 5%, and Ohio contributed 1%. For the year ended December 31, 2019, New York operations contributed approximately 34% of revenues, while Minnesota contributed 35%, Arizona contributed 15%, Pennsylvania contributed 10%, Maryland contributed 2%, and New Mexico contributed 4%.

Revenue for the year ended December 31, 2020 was \$49,211,329, an increase of \$19,255,157 or 64% compared to revenue of \$29,956,172 for year ended December 31, 2019. The increase is primarily attributable to revenue contributions from the retail business in Minnesota of \$6.1 million, the retail business in Pennsylvania of \$3.3 million, the wholesale business in Maryland of \$3.3 million, and the wholesale business in Arizona of \$1.6 million. Key revenue drivers are increased market penetration of our branded products in the Maryland and Arizona wholesale markets and increased patient demand in Minnesota, which is partially the result of an increase in the number of qualifying conditions, which helps contribute to growth in certified patient enrollments. The two retail dispensaries in Pennsylvania, opened in the fourth quarter of 2019, also contributed significantly to year over year growth.

Retail revenue for the year ended December 31, 2020 was \$37,236,301, an increase of \$12,886,279 or 53% compared to retail revenue of \$24,350,022 for the year ended December 31, 2019 primarily due to revenue contributions from Minnesota and Pennsylvania.

Wholesale revenue for the year ended December 31, 2020 was \$11,972,314, an increase of \$6,366,164 compared to wholesale revenue of \$5,606,150 for year ended December 31, 2019. The increase was primarily due to increased revenue contributions from Maryland and Arizona.

	Year Ended December 31,		\$ Change	% Change
	2020	2019		
<b>Retail:</b>				
MN	\$ 16,506,418	\$ 10,359,342	\$ 6,147,076	59 %
NY	10,890,084	9,990,907	899,177	9 %
AZ	4,018,613	2,722,531	1,296,082	48 %
NM	2,349,826	1,085,332	1,264,494	117 %
PA	3,471,360	191,910	3,279,450	1,709 %
<b>Total Retail</b>	<b>\$ 37,236,301</b>	<b>\$ 24,350,022</b>	<b>\$ 12,886,279</b>	<b>53 %</b>
<b>Wholesale:</b>				
AZ	\$ 3,555,184	\$ 1,908,521	\$ 1,646,663	86 %
MD	3,797,655	547,653	3,250,002	593 %
NY	630,277	280,570	349,707	125 %
OH	467,331	71,960	395,371	549 %
PA	3,521,867	2,797,446	724,421	26 %
<b>Total Wholesale</b>	<b>\$ 11,972,314</b>	<b>\$ 5,606,150</b>	<b>\$ 6,366,164</b>	<b>114 %</b>
RI Royalty	\$ 2,714	\$ —	\$ 2,714	N.M.
<b>Total Revenue</b>	<b>\$ 49,211,329</b>	<b>\$ 29,956,172</b>	<b>\$ 19,255,157</b>	<b>64 %</b>
PA Revenue	\$ (6,993,227)	\$ (2,989,356)	\$ (4,003,871)	134 %
<b>Total Revenue excluding PA</b>	<b>\$ 42,218,102</b>	<b>\$ 26,966,816</b>	<b>\$ 15,251,286</b>	<b>57 %</b>

### *Cost of Goods Sold and Gross Profit*

Cost of goods sold are determined from costs related to the cultivation and processing of cannabis and cannabis-derived products as well as the cost of finished goods inventory purchased from third parties.

Cost of goods sold for the year ended December 31, 2020 was \$32,083,608, an increase of \$9,463,716 compared to the year ended December 31, 2019 of \$22,619,892, driven most significantly by the increase in retail sales and patient demand in Pennsylvania and Minnesota, and the increase in wholesale sales in Maryland and Arizona.

Gross profit for the year ended December 31, 2020 was \$17,127,721, representing a gross margin of 35%. This is compared to gross profit for the year ended December 31, 2019 of \$7,336,280 or a 24% gross margin. The increase in margin was driven by higher throughput across all markets decreasing fixed cost per unit. This was especially true in the Maryland and Pennsylvania wholesale markets, which were not operating at full capacity in 2019. 2020 Maryland and Pennsylvania wholesale gross profit increased approximately \$1.3 million and \$1.1 million respectively relative to 2019. Additionally, the Minnesota and Pennsylvania retail market saw gross profit expansion of approximately \$5.6 million and \$1.1 million, respectively, due to increased sales driven by increased qualifying conditions and patient enrollments.

### *Total Expenses*

Total expenses for the year ended December 31, 2020 were \$40,170,843, an increase of \$10,466,917 compared to total expenses of \$29,703,926 for the year ended December 31, 2019. The increase in total expenses was attributable to an increase in salaries and wages, professional fees, and general and administrative expenses of \$1.3 million, including

\$630,282 in professional fees incurred as part of the one-time transition from an IFRS basis of accounting to a GAAP basis of accounting, and an increase in share-based compensation of \$9.5 million. The increase in salaries and wages, and general and administrative expenses was driven by significant operational buildout in existing markets, and the increase in share-based compensation was driven by the issuance of various compensation warrants in 2019.

### ***Operating Loss before Income Taxes***

Operating loss before other income (expense) and provision for income taxes for the year ended December 31, 2020 was \$(23,043,122), a decrease of \$675,476 compared to operating income before other income (expense) and provision for income taxes of \$(22,367,646) for the year ended December 31, 2019.

### ***Total Other Income (Expense)***

Total other income for the year ended December 31, 2020 was \$8,890,928, an increase of \$43,416,594 compared to other expense of \$(34,525,666) for the year ended December 31, 2019. The increase in other income is primarily attributable to the 2019 intangible asset write-offs of \$28,264,850 to reflect changing market conditions, the 2020 gain on the divestitures of the various subsidiaries of \$20.3 million, partially offset by the loss on derivative liability of \$6.3 million. The impairment of intangible assets resulted from our view of changing industry and market circumstances, primarily in non-core markets.

### ***Provision for Income Taxes***

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the year ended December 31, 2020, Federal and State income tax expense totaled \$8,790,000 compared to a tax expense of \$586,000 for the year ended December 31, 2019. This expense is significantly impacted by the \$20.3 million gain affiliated with the divestiture of various subsidiaries.

### **Non-GAAP Measures**

EBITDA and Adjusted EBITDA are non-GAAP measures and do not have standardized definitions under GAAP. The following information provides reconciliations of the supplemental non-GAAP financial measures presented herein to the most directly comparable financial measures calculated and presented in accordance with GAAP. The Company has provided the non-GAAP financial measures, which are not calculated or presented in accordance with GAAP, as supplemental information and in addition to the financial measures that are calculated and presented in accordance with GAAP. These supplemental non-GAAP financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believe that the supplemental non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. These supplemental non-GAAP financial measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented.

Our calculation of EBITDA and Adjusted EBITDA now also excludes “depreciation included in the cost of goods sold.” We believe excluding these additional items better represents our EBITDA by excluding all depreciation.

	Year Ended December 31,	
	2021	2020
<b>Net income (loss)</b>	\$ (33,690,475)	\$ (22,942,194)
Interest expense, net	10,575,370	5,095,848
Income taxes	4,122,000	8,790,000
Depreciation & Amortization	1,441,828	1,028,187
Depreciation included in cost of goods sold	2,404,711	2,067,991
<b>EBITDA (non-GAAP)</b>	<u>\$ (15,146,566)</u>	<u>\$ (5,960,168)</u>
Derivative (Gain) Loss	—	6,260,480
Inventory adjustment	2,641,080	974,384
Loss on impairment of long-lived assets	5,169,951	—
Stock-based compensation	5,182,641	12,777,474
Severance Expense	—	339,997
Gain on sale of discontinued operations	(6,903,039)	(20,253,177)
Costs associated with the IFRS to GAAP transition	—	630,282
<b>Adjusted EBITDA (non-GAAP)</b>	<u>\$ (9,055,933)</u>	<u>\$ (5,230,728)</u>

### Liquidity and Capital Resources

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.

The Company is an early-stage growth company. It is generating cash from sales and is deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are being utilized for acquisitions in the medical and adult use cannabis markets, for capital expenditures and improvements in existing facilities, product development and marketing, as well as customer, supplier and investor and industry relations.

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

#### *Credit Facility*

On March 25, 2021, 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 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.

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”).

### ***Cash Used in Operating Activities***

Net cash used in operating activities was \$30.5 million for the year ended December 31, 2021, an increase of \$19.6 million as compared to the year ended December 31, 2020. The increase is primarily attributable to year over year inventory builds, and changes in the other working capital items.

### ***Cash Flow from Investing Activities***

Net cash used in investing activities was \$7.2 million for the year ended December 31, 2021, compared to net cash provided of \$12.9 million for the year ended December 31, 2020. The increase in cash used is primarily attributable to increased capital expenditures of \$9.6 million, the acquisitions of MJ Distributing and Charm City, and \$6 million less proceeds from the sale of assets relative to the prior year.

### ***Cash Flow from Financing Activities***

Net cash provided by financing activities was \$25.8 million for the year ended December 31, 2020, an increase of \$9.9 million as compared to the year ended December 31, 2020. The increase was principally due to the proceeds received from the Credit Facility.

### ***Lease Transactions***

As of December 31, 2021, we have entered into lease agreements for the use of buildings used in cultivation, production and sales of cannabis products in Arizona, Maryland, Minnesota, Nevada, New Mexico, New York, and Puerto Rico.

The lease agreements for all of retail space used for our dispensary operations are with third-party landlords and remaining duration ranges from 1 to 6 years. These agreements are short-term facility leases that require the Company to make monthly rent payments as well as to fund common area costs, utilities and maintenance. In some cases, we have received tenant improvement funds to assist in the buildout of the space to meet our operating needs. As of December 31, 2021, the Company had 18 retail locations secured under these agreements.

We have also entered into sale and leaseback arrangements for our cultivation and processing facilities in Minnesota and New York with a special-purpose real estate investment trust. These leases are long-term agreements that provide, among other things, funds to make certain improvements to the property to increase production capacity and operational efficiency of the facility.

Excluding any contracts under one year in duration, the future minimum lease payments (principal and interest) on all our leases are as follows:

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

### **Outstanding Share Data**

As of March 11, 2022, we had 83,488,266 shares issued and outstanding, consisting of the following:

*(a) Subordinate Voting Shares*

83,037,528 shares issued and outstanding. The holders of Subordinate Voting Shares are entitled to receive dividends which may be declared from time to time and are entitled to one vote per share at all shareholder meetings. All Subordinate Voting Shares are ranked equally with regards to the Company's residual assets. The Company is authorized to issue an unlimited number of no-par value Subordinate Voting Shares.

*(b) Multiple Voting Shares*

385,327 shares issued and outstanding. The holders of Multiple Voting Shares are entitled to one hundred votes per share at all shareholder meetings. Each Multiple Voting Share is exchangeable for one hundred Subordinate Voting Shares. The Company is authorized to issue an unlimited number of Multiple Voting Shares.

*(c) Super Voting Shares*

65,411 shares issued and outstanding. The holders of Super Voting Shares are entitled to one thousand votes per share at all shareholder meetings. Each Super Voting Share is exchangeable for one hundred Subordinate Voting Shares. The Company is authorized to issue an unlimited number of Super Voting Shares.

*Options, Warrants, and Convertible Promissory Notes*

As of December 31, 2021, we had 23,226,338 employee stock options outstanding, as well as 13,583 MVS advisory and compensation warrants, and 3,037,649 SVS compensation warrants denominated in C\$ related to financing activities.

### **Off-Balance Sheet Arrangements**

As of the date of this filing, we do not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on our results of operations or financial condition, including, and without limitation, such considerations as liquidity and capital resources.

### **Outlook**

Given the pending transaction with Verano, we are withdrawing our previously issued guidance and will not be issuing additional guidance at this time.

## **Summary of Significant Accounting Policies**

The critical accounting estimates, assumptions, and judgments that we believe to have the most significant impact on our consolidated financial statements are described below. Note 2, “Summary of Significant Accounting Policies” of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K describes the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

### ***Use of estimates and significant judgments***

The preparation of our 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 financial statements include cash flows and discount rates used in accounting for business combinations including contingent consideration, asset impairment including estimated future cash flows and fair values, the allowance for doubtful accounts receivable and trade receivables, inventory valuation adjustments that contemplate the market value of, and demand for inventory, estimated useful lives of property and equipment and intangible assets, valuation allowance on deferred income tax assets, determining the fair value of financial instruments, fair value of stock-based compensation, estimated variable consideration on contracts with customers, sales return estimates, the fair value of the convertible notes and equity component and the classification, incremental borrowing rates and lease terms applicable to lease contracts. We believe that the estimates, judgments, and assumptions used to determine certain amounts that affect the financial statements are reasonable, based on information available at the time they are made. To the extent there are differences between these estimates and actual results, our consolidated financial statements may be materially affected.

### ***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.

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.

### ***Cost of sales***

Cost of sales represents costs directly related to manufacturing and distribution of our 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. We recognize the cost of sales as the associated revenues are recognized.

### ***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, we perform an assessment of inventory and records write-downs for excess and obsolete inventories based on our estimated forecast of product demand, production requirements, market conditions, regulatory environment, and spoilage. Factors considered in the determination of obsolescence include slow-moving or non-marketable items. Actual inventory losses may differ from management's estimates and such differences could be material our consolidated balance sheets, statements of net loss and comprehensive loss and statements of cash flows. In calculating the value of the inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis plant up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields of the cannabis plant. In calculating final inventory values, management is required to determine an estimated fail rate and compare the inventory cost to estimated net realizable value. If the assumptions around future demand for our inventory are more optimistic than actual future results, then the excess and obsolete inventory provision may not be sufficient, resulting in our inventory being valued in excess of its net realizable value.

### ***Assessing Recoverability of long-lived assets***

We review long-lived assets, including property and equipment and definite life intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. 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. 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**”). 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. 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If impairment indicators exist and are not identified, or judgment and assumptions used in assessing the recoverable amount change, the carrying value of long-lived assets can exceed the recoverable amount.

### ***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. An impairment charge is recorded if the carrying value exceeds the fair value. If the judgments relating to the qualitative or quantitative assessments performed differ from actual results, or if assumptions are different, the values of the indefinite life intangible assets and goodwill can differ from the amounts recorded.

#### ***Estimating the fair value of Stock-based compensation***

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. The exercise price for incentive stock options issued under the plan will be set by the Administrator (as defined under the plan) but will not be less 100% of the fair market value of the Company's shares on the date of grant. 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. The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option pricing model. Estimates in our stock-based compensation valuations are highly complex and subjective. 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 common 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. Stock options have a maximum term of 10 years from the date of grant. The stock options vest at the discretion of the Board. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.

For stock options granted, the fair value of common stock at the date of grant was determined by the Board of Directors with assistance from third-party valuation specialists. The Company estimates forfeitures at the time of grant and revises these estimates in subsequent periods if actual forfeitures differ from those estimates.

For performance-based stock options and RSUs, the Company records compensation expense over the estimated service period adjusted for a probability factor of achieving the performance-based milestones. At each reporting date, the Company assesses the probability factor and records compensation expense accordingly, net of estimated forfeitures.

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.

#### ***Assessing the realizability of deferred tax assets***

The Company uses the asset and 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.

#### ***Recently Issued Accounting Standards***

For a discussion of recent accounting pronouncements, please see Note 2, Summary of Significant Accounting Policies to our financial statements included elsewhere in this prospectus.