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

# FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from _________ to _________

Commission File Number: 000-56225

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

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

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

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

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

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

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

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

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

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

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

As of August 9, 2022, the registrant had the following number of shares of each of its classes of registered securities outstanding: Subordinate Voting Shares – 84,666,630; Multiple Voting Shares – 369,186; and Super Voting Shares – 65,411.

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 16,970,729 | $ 15,155,279 |
| Accounts receivable, net of allowance for doubtful accounts of $543,680 and $572,080, respectively | 6,488,784 | 4,502,469 |
| Inventory | 18,607,668 | 20,422,061 |
| Prepayments and other current assets | 2,591,556 | 1,560,113 |
| Assets Held for Sale | 1,729,017 | — |
| Total current assets | 46,387,754 | 41,639,922 |
| Property and equipment, net | 94,225,562 | 99,488,559 |
| Operating lease, right-of-use asset | 7,852,578 | 8,510,499 |
| Notes receivable, long-term | 3,750,000 | 3,750,000 |
| Intangible assets, net | 9,771,479 | 10,184,289 |
| Goodwill | 183,836 | 183,836 |
| Deposits | 2,121,487 | 1,718,206 |
| Deferred tax assets | 4,530,000 | 1,495,000 |
| Total assets | $ 168,822,696 | $ 166,970,311 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts Payable and Accrued liabilities | $ 15,608,858 | $ 14,805,473 |
| Right of use liability | 1,775,746 | 1,600,931 |
| Liabilities held for sale | 1,140,828 | — |
| Total current liabilities | 18,525,432 | 16,406,404 |
| Right-of-use liability | 80,452,937 | 80,228,097 |
| Long-Term debt | 45,847,769 | 27,329,907 |
| Total liabilities | $ 144,826,138 | $ 123,964,408 |
| | | |
| Commitments and contingencies (refer to Note 16) | | |
| | | |
| **Stockholders' equity** | | |
| Subordinate Voting Shares ($- par value, unlimited shares authorized; 84,111,628 shares issued and outstanding) | — | — |
| Multiple Voting Shares ($- par value, unlimited shares authorized; 374,586 shares issued and outstanding) | — | — |
| Super Voting Shares ($- par value; unlimited shares authorized; 65,411 shares issued and outstanding, respectively) | — | — |
| Additional Paid in Capital | 180,169,935 | 178,429,422 |
| Accumulated deficit | (156,173,377) | (135,423,519) |
| Total stockholders' equity | $ 23,996,558 | $ 43,005,903 |
| **Total liabilities and stockholders' equity** | $ 168,822,696 | $ 166,970,311 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| **Revenue** | $ 21,090,148 | $ 14,230,900 | $ 36,728,720 | $ 27,420,789 |
| **Cost of sales** | | | | |
| Product costs | 10,663,251 | 7,273,011 | 20,346,228 | 14,779,059 |
| Inventory valuation adjustments | 59,871 | 45,000 | 3,526,788 | 113,000 |
| Gross profit | 10,367,026 | 6,912,889 | 12,855,704 | 12,528,730 |
| **Operating expenses:** | | | | |
| Selling, general and administrative | 8,625,439 | 8,299,682 | 17,903,408 | 16,335,673 |
| Stock-based compensation expenses | 1,098,008 | 1,408,080 | 1,740,513 | 3,454,698 |
| Depreciation | 163,127 | 246,247 | 319,224 | 417,809 |
| Amortization | 172,267 | 206,442 | 344,533 | 412,885 |
| Total operating expenses | 10,058,841 | 10,160,451 | 20,307,678 | 20,621,065 |
| **Income (loss) from operations** | 308,185 | (3,247,562) | (7,451,974) | (8,092,335) |
| **Other income (expense):** | | | | |
| Impairment of long-lived assets | (54,739) | — | (5,367,915) | — |
| Loss on sale of property and equipment | (10,930) | — | (10,930) | — |
| Gain on disposal of assets | — | — | 168,359 | 437,107 |
| Interest expenses, net | (5,297,823) | (2,756,358) | (9,899,622) | (3,782,504) |
| Other income (expenses) | (82,769) | (98,055) | 1,117,224 | (41,387) |
| Other income (expenses), net | (5,446,261) | (2,854,413) | (13,992,884) | (3,386,784) |
| Loss before income taxes | (5,138,076) | (6,101,975) | (21,444,858) | (11,479,119) |
| Current income tax expenses | (965,000) | (885,000) | (2,340,000) | (2,620,000) |
| Deferred income tax recoveries | (80,000) | (25,000) | 3,035,000 | 210,000 |
| Net loss and comprehensive loss | (6,183,076) | (7,011,975) | (20,749,858) | (13,889,119) |
| Net loss per share - basic and diluted | $ (0.05) | $ (0.06) | $ (0.16) | $ (0.11) |
| Weighted average shares used in computation of net loss per share - basic & diluted | 128,111,328 | 125,557,734 | 128,111,328 | 120,856,801 |

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

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

| | Common Stock | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | SVS | | MVS | | Super Voting Shares | | | | |
| | Shares | Amount | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity |
| Balance, January 1, 2021 | 51,062,559 | $ — | 554,127 | $ — | 65,411 | — | $ 164,079,614 | $ (101,733,044) | $ 62,346,570 |
| Conversion of MVS shares | 13,197,700 | — | (131,977) | — | — | — | — | — | — |
| Shares issued in Nevada acquisition | 1,050,000 | — | — | — | — | — | 1,385,239 | — | 1,385,239 |
| Options exercised | 3,659,668 | — | — | — | — | — | 1,075,723 | — | 1,075,723 |
| Warrants exercised | 7,110,481 | — | — | — | — | — | — | — | — |
| Warrants issued in financing activities | — | — | — | — | — | — | 5,395,759 | — | 5,395,759 |
| Stock-based compensation | 1,185,293 | — | — | — | — | — | 3,454,698 | — | 3,454,698 |
| Net Loss | — | — | — | — | — | — | — | (13,889,119) | (13,889,119) |
| Balance at June 30, 2021 | 77,265,701 | $ — | 422,150 | $ — | 65,411 | $ — | $ 175,391,033 | $ (115,622,163) | $ 59,768,870 |
| | | | | | | | | | |
| Balance, January 1, 2022 | 81,298,228 | $ — | 402,720 | $ — | 65,411 | $ — | $ 178,429,422 | $ (135,423,519) | $ 43,005,903 |
| Conversion of MVS shares | 2,813,400 | — | (28,134) | — | — | — | — | — | — |
| Stock-based compensation | — | — | — | — | — | — | 1,740,513 | — | 1,740,513 |
| Net Loss | — | — | — | — | — | — | — | (20,749,858) | (20,749,858) |
| Balance at June 30, 2022 | 84,111,628 | $ — | 374,586 | $ — | 65,411 | $ — | $ 180,169,935 | $ (156,173,377) | $ 23,996,558 |

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

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

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $ (20,749,858) | $ (13,889,119) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Inventory valuation adjustments | 3,526,788 | 113,000 |
| Depreciation | 319,224 | 417,809 |
| Depreciation capitalized into inventory | 1,314,056 | 986,896 |
| Non-cash operating lease expense | 558,083 | 519,176 |
| Amortization of intangible assets | 344,533 | 412,885 |
| Stock-based payments | 1,740,513 | 3,454,698 |
| Interest Expense | 2,162,218 | 886,628 |
| Impairment of long-lived assets | 5,367,915 | — |
| Deferred income tax | (3,035,000) | (210,000) |
| Accretion | 2,521,196 | 195,197 |
| Loss on Sale of Property and Equipment | 10,930 | — |
| Gain on disposal of OMS | — | (437,107) |
| Gain on disposal of royalty asset | (168,359) | — |
| Change in operating assets and liabilities: | | |
| Accounts Receivable | (1,986,315) | (1,531,985) |
| Prepaid expenses | (1,031,442) | (292,260) |
| Inventory | (1,612,556) | (4,059,044) |
| Accounts payable and accrued liabilities | 870,373 | (4,182,954) |
| Change in assets and liabilities held for sale | — | 124,843 |
| Net cash used in operating activities | $ (9,847,701) | $ (17,491,337) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| PP&E Additions | $ (3,917,948) | $ (11,028,976) |
| Proceeds from sale of property, plant, and equipment | 372,815 | — |
| Proceeds from sale of royalty asset | 236,635 | — |
| Acquisition of MJ Distributing | — | (1,592,500) |
| Proceeds from sale of OMS net of cash | — | 1,150,000 |
| Deposits | (403,281) | (1,595) |
| Net cash provided by (used in) investing activities | $ (3,711,779) | $ (11,473,071) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from long-term debt, net of issuance costs | $ 16,355,643 | $ 23,162,526 |
| Convertible debt payment | — | (900,000) |
| Proceeds from option exercises | — | 1,075,723 |
| Lease principal payments | (980,713) | (653,165) |
| Net cash provided by financing activities | $ 15,374,930 | $ 22,685,084 |
| Net change in cash and restricted cash | $ 1,815,450 | $ (6,279,324) |
| Cash and restricted cash, beginning of period | $ 15,155,279 | $ 27,105,680 |
| Cash and restricted cash, end of period | $ 16,970,729 | $ 20,826,356 |

The accompanying notes are an integral part of these unaudited condensed 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.

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.

**2. Summary of Significant Accounting Policies**

***Significant Accounting Policies***

The Company's significant accounting policies are described in Note 2 to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with this Securities and Exchange Commission, or SEC, on March 15, 2022 (the "**Annual Financial Statements**"). There have been no material changes to the Company's significant accounting policies.

***Basis of presentation***

The accompanying unaudited condensed consolidated financial statements reflect the accounts of the Company. The information included in these statements should be read in conjunction with the Annual Financial Statements. The unaudited condensed consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States of America ("**U.S. GAAP**") and pursuant to the rules and regulations of the United States Securities and Exchange Commission ("**SEC**"). In the opinion of management, the financial data presented includes all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. Results of interim periods should not be considered indicative of the results for the full year. These unaudited interim condensed consolidated financial statements include estimates and assumptions of management that affect the amounts reported in the unaudited condensed consolidated financial statements. Actual results could differ from these estimates.

***Revision of Previously Issued Financial Statements***

During the year ended December 31, 2021, management identified an error related to the accounting treatment of warrants with a Canadian dollar exercise price issued in connection with the Credit Facility. The Company initially recorded these Canadian denominated warrants as a derivative liability subject to revaluation at each period end, when they should have received equity treatment. Additionally, the Company identified errors related to the valuation of stock issued in the acquisition of MJ Distributing, and stock issued to our former Executive Chairman, Bruce Linton. In both instances the stock issued carried certain lock up provisions. The Company initially recorded the equity value of the stock issued at market value on the date of issuance, rather than applying a discount for lack of marketability to account for the lock up provisions.

To correct the immaterial misstatements for the three and six month periods ended June 30, 2021, the Company elected to revise its previously issued interim unaudited condensed consolidated statements of net loss and comprehensive loss, stockholders' equity, and cash flows. The Company will present the revision of its previously issued interim unaudited condensed consolidated financial statements in connection with the future filing of its Quarterly Reports on Form 10-Q.

The impact of the revisions on the Company's interim unaudited condensed consolidated financial statements for the three and six months ended June 30, 2021 is reflected in the following table:

| Statement of Net Loss and Comprehensive Loss for the six months ended June 30, 2021 (unaudited) | As Previously Reported | Adjustment | As Revised |
|---|---|---|---|
| **Operating expenses:** | | | |
| Stock-based compensation expenses | $ 3,722,655 | $ (267,957) | $ 3,454,698 |
| Total operating expenses | 20,889,022 | (267,957) | 20,621,065 |
| **Loss from operations** | (8,360,292) | 267,957 | (8,092,335) |
| **Other income (expense):** | | | |
| Derivative gain (loss) | 1,689,900 | (1,689,900) | — |
| Other income (expenses), net | (1,696,884) | (1,689,900) | (3,386,784) |
| Loss before income taxes | (10,057,176) | (1,421,943) | (11,479,119) |
| Net income (loss) and comprehensive income (loss) | $ (12,467,176) | $ (1,421,943) | $ (13,889,119) |

| Statement of Net Loss and Comprehensive Loss for the three months ended June 30, 2021 (unaudited) | As Previously Reported | Adjustment | As Revised |
|---|---|---|---|
| **Other income (expense):** | | | |
| Derivative gain (loss) | $ 1,531,371 | $ (1,531,371) | $ — |
| Other income (expenses), net | (1,323,042) | (1,531,371) | (2,854,413) |
| Loss before income taxes | (4,570,604) | (1,531,371) | (6,101,975) |
| Net income (loss) and comprehensive income (loss) | $ (5,480,604) | $ (1,531,371) | $ (7,011,975) |

| Consolidated Statement of Changes in Stockholders' Equity as of June 30, 2021 (unaudited) | As Previously Reported | Adjustment | As Revised |
|---|---|---|---|
| Shares issued in Nevada acquisition | $ 1,564,500 | $ (179,261) | $ 1,385,239 |
| Stock-based compensation | 3,722,655 | (267,957) | 3,454,698 |
| Warrants issued in financing activities | — | 5,395,759 | 5,395,759 |
| Net Loss | (12,467,176) | (1,421,943) | (13,889,119) |
| Balance at June 30, 2021 | $ 56,242,272 | $ 3,526,598 | $ 59,768,870 |

| Consolidated Statement of Cash Flows for the six months ended June 30, 2021 (unaudited) | As Previously Reported | Adjustment | As Revised |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss | $ (12,467,176) | $ (1,421,943) | $ (13,889,119) |
| Derivative gain | (1,689,900) | 1,689,900 | — |
| Share-based payments | 3,722,655 | (267,957) | 3,454,698 |

***Basis of consolidation***

These unaudited condensed consolidated financial statements include the accounts of the following entities wholly owned, or effectively controlled by the Company during the period ended June 30, 2022:

| 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 |
| 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 Company's unaudited condensed consolidated financial statements.

***Recently adopted accounting pronouncements***

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 Company adopted Topic 832 on January 1, 2022. The adoption of the standard did not have a material impact on the Company's results of operations or cash flows.

***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. The Company recorded a net loss for the three and six month periods ended June 30, 2022 and 2021, presented in these financial statements, and as such there is no difference between the Company's basic and diluted net loss per share for these periods.

The anti-dilutive shares outstanding for the six month period ending June 30, 2022 and 2021 were as follows:

| | June 30, | |
|---|---|---|
| | **2022** | **2021** |
| Stock options | 26,187,660 | 23,928,810 |
| Warrants | 4,226,449 | 4,395,949 |
| RSUs | 1,094,200 | — |
| Total | 31,508,309 | 28,324,759 |

***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:

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Retail | $ 29,453,715 | $ 21,684,617 | $ 17,041,492 | $ 11,301,497 |
| Wholesale | 7,275,005 | 5,736,172 | 4,048,656 | 2,929,403 |
| Total | $ 36,728,720 | $ 27,420,789 | $ 21,090,148 | $ 14,230,900 |

***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.

**3. Business Combinations and Dispositions**

*Dispositions*

On March 31, 2021, the Company sold all of the assets and liabilities of its affiliated company, Ohio Medical Solutions, Inc. ("**OMS**") to Ayr Strategies Inc. ("**Ayr**"). 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 $437,107 which was recorded in the unaudited condensed consolidated statement of loss and comprehensive loss for the six months ended June 30, 2021.

On March 31, 2022, the Company sold the rights to a 10% royalty on future net revenues generated by High Gardens, Inc., a former subsidiary of the Company that was divested in 2020, for cash consideration of $236,635. The carrying value of the intangible royalty asset prior to disposition was $68,276, resulting in a gain of $168,359 which was recorded in the unaudited condensed consolidated statement of loss and comprehensive loss for the six months ended June 30, 2022.

*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.

*Assets Held for Sale*

As of June 30, 2022 the Company identified property, equipment, and lease assets and liabilities associated with the businesses in Maryland and Arizona with carrying amounts that are expected to be recovered principally through sale rather than through continuing use. The sale of these assets and liabilities is highly probable, they can be sold in their immediate condition, and the sales are expected to occur within the next twelve motnhs. As such, these assets and liabilities have been classified as "held for sale." The carrying value of these net assets exceeded fair value less expected cost to sell, and as such, the Company recorded an impairment loss of $54,739 for the three months ended June 30, 2022, and $5,367,915 for the six months ended June 30, 2022. Assets and liabilities held for sale are as follows:

| | | |
|---|---|---|
| **Assets held for sale** | | |
| Property and equipment | $ | 1,729,017 |
| Total assets held for sale | $ | 1,729,017 |
| | | |
| **Liabilities held for sale** | | |
| Right of Use Liability | $ | 1,140,828 |
| Total liabilities held for sale | $ | 1,140,828 |

**4. Fair Value Measurements**

The Company complies with ASC 820, Fair Value Measurements, for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability.

The following tables present information about the Company's assets that are measured at fair value on a recurring basis as of June 30, 2022, and December 31, 2021, indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value:

| | Quoted prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| June 30, 2022 | | | | |
| Cash | $ 16,970,729 | $ — | $ — | $ 16,970,729 |
| Total assets | $ 16,970,729 | $ — | $ — | $ 16,970,729 |
| | | | | |
| December 31, 2021 | | | | |
| Cash | 15,155,279 | — | — | 15,155,279 |
| Total assets | $ 15,155,279 | $ — | $ — | $ 15,155,279 |

*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 six months ended June 30, 2022, the carrying values of property and equipment 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 (Note 8).

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:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Trade receivable | $ 2,259,941 | $ 1,251,699 |
| Tax withholding receivable | 3,093,471 | 3,208,270 |
| Other | 1,135,372 | 42,500 |
| Total | $ 6,488,784 | $ 4,502,469 |

Included in the trade receivables, net balance at June 30, 2022 and December 31, 2021, is an allowance for doubtful accounts of $187,206 and $215,606, respectively. Included in the tax withholding receivable, net balance at June 30, 2022 and December 31, 2021 is an allowance for doubtful accounts of $356,474. Other receivables, as of June 30, 2022, primarily consists of deferred financing costs paid in connection with the Credit Facility (Note 13), but subject to reimbursement by Verano per the terms of the Arrangement Agreement.

## 6. Inventory

Inventory is comprised of the following items:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Work-in-progress | $ 12,957,015 | $ 15,167,522 |
| Finished goods | 4,818,327 | 4,580,158 |
| Other | 832,326 | 674,381 |
| Total | $ 18,607,668 | $ 20,422,061 |

Inventory is written down for any obsolescence, spoilage and excess inventory or when the net realizable value of inventory is less than the carrying value. Inventory valuation adjustments included in cost of sales on the statements of net loss and comprehensive loss is comprised of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Work-in-progress | $ 44,652 | $ — | $ 3,324,943 | $ — |
| Finished goods | 15,219 | 45,000 | 166,467 | 113,000 |
| Other | — | — | 35,378 | — |
| Total | $ 59,871 | $ 45,000 | $ 3,526,788 | $ 113,000 |

## 7. Prepayments and other current assets

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Prepaid Insurance | $ 1,889,122 | $ 838,612 |
| Other Prepaid Expenses | 702,434 | 721,501 |
| Total | $ 2,591,556 | $ 1,560,113 |

**8. Property and Equipment, Net**

Property and equipment, net consisted of the following:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Land | $ 1,366,650 | $ 1,366,650 |
| Buildings and leasehold improvements | 13,122,748 | 15,529,928 |
| Furniture and equipment | 7,899,625 | 7,962,363 |
| Software | 221,540 | 221,540 |
| Vehicles | 508,135 | 513,135 |
| Construction-in-progress | 9,516,453 | 10,510,166 |
| Right of use asset under finance lease | 70,048,971 | 71,078,655 |
| | 102,684,122 | 107,182,437 |
| Less: accumulated depreciation | (8,458,560) | (7,693,878) |
| Total | $ 94,225,562 | $ 99,488,559 |

For the six months ended June 30, 2022 and 2021, total depreciation on property and equipment was $1,633,280 and $1,404,705, respectively. For the six months ended June 30, 2022 and 2021, accumulated amortization of the right of use asset under finance lease amounted to $3,007,098 and $2,024,551, respectively. The right of use asset under finance lease of $70,048,971 consists of leased processing and cultivation premises. The Company capitalized into inventory $1,314,056 and $986,896 relating to depreciation associated with manufacturing equipment and production facilities for the six months ended June 30, 2022 and 2021, respectively. The capitalized depreciation costs associated are added to inventory and expensed through Cost of Sales Product Cost on the unaudited condensed consolidated statements of net loss and comprehensive loss.

As of June 30, 2022, in conjunction with the Company's held for sale assessment, the Company evaluated whether property and equipment showed any indicators of impairment, and it was determined that the recoverable amount of certain net assets were below book value. As a result, the Company recorded an impairment charge of $5,367,915 (2021 - $0) on property and equipment, net.

**9. Leases**

Components of lease expenses are listed below:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Finance lease cost | | |
| Amortization of ROU assets | $ 549,601 | $ 458,505 |
| Interest on lease liabilities | 5,288,767 | 1,774,316 |
| Operating lease expense | 1,294,433 | 1,308,916 |
| Total lease expenses | $ 7,132,801 | $ 3,541,737 |

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

| | Operating Leases June 30, 2022 | Finance Leases June 30, 2022 | Total |
|---|---|---|---|
| 2022 | $ 1,261,677 | $ 4,161,865 | $ 5,423,542 |
| 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 | $ 12,088,797 | $ 253,315,959 | $ 265,404,756 |
| Less discount to net present value | (3,976,223) | (178,059,022) | (182,035,245) |
| Less liabilities held for sale | — | (1,140,828) | (1,140,828) |
| Present value of lease liability | $ 8,112,574 | $ 74,116,109 | $ 82,228,683 |

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

Supplemental cash flow information related to leases:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Lease principal payments | $ 980,713 | $ 653,165 |
| Non-cash additions to ROU assets | — | 2,369,610 |
| Amortization of operating leases | 657,921 | 630,776 |

Other information about lease amounts recognized in the financial statements:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Weighted-average remaining lease term (years) – operating leases | 5.25 | 6.07 |
| Weighted-average remaining lease term (years) – finance leases | 19.12 | 19.79 |
| Weighted-average discount rate – operating leases | 15.00 % | 0.15 % |
| Weighted-average discount rate – finance leases | 15.27 % | 22.31 % |

**10. Goodwill**

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

| | |
|---|---|
| Goodwill - January 1, 2021 | $ 3,132,491 |
| Dispositions | (2,948,655) |
| Goodwill - December 31, 2021 and June 30, 2022 | $ 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's annual impairment testing is December 31. On this date the Company performed a Step 1 goodwill impairment analysis. No indicators of impairment exists as of June 30, 2022.

**11. Intangibles**

Intangible assets are comprised of the following items:

| | Licenses | Royalty Asset | Total |
|---|---|---|---|
| Balance December 31, 2020 | $ 8,341,142 | $ 68,276 | $ 8,409,418 |
| Additions | 10,190,458 | — | 10,190,458 |
| Divestitures | (5,492,890) | — | (5,492,890) |
| Amortization | (817,215) | — | (817,215) |
| Impairment | (2,105,483) | | (2,105,483) |
| Balance, December 31, 2021 | $ 10,116,012 | $ 68,276 | $ 10,184,288 |
| Divestitures *(Note 3)* | — | (68,276) | (68,276) |
| Amortization | (344,533) | — | (344,533) |
| Balance, June 30, 2022 | $ 9,771,479 | $ — | $ 9,771,479 |

Amortization expense for intangibles was $172,267 and $344,533 during the three and six months ended June 30, 2022, respectively, and $206,442 and $412,885 during the three and six months ending June 30, 2021, respectively. Amortization expense is recorded in operating expenses on the unaudited condensed consolidated statements of net loss and comprehensive loss.

The Company estimates that amortization expense will be $689,066 per year for the next five fiscal years.

**12. Accounts Payable and Accrued Liabilities**

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Accounts payable – trade | $ 2,528,979 | $ 1,490,286 |
| Accrued Expenses | 7,906,782 | 7,708,883 |
| Taxes payable | 4,650,171 | 5,196,677 |
| Contract liability | 522,926 | 409,627 |
| Total accounts payable and accrued liabilities | $ 15,608,858 | $ 14,805,473 |

**13. 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 which is treated as a deferred financing cost.

On November 18, 2021, the Company and lenders 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% per annum 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.

On January 31, 2022, Goodness Growth and certain of its subsidiaries, as borrowers (collectively, "Borrowers"), entered into a Third Amendment to the Credit Facility (the "Third Amendment") providing for additional 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 closing of the transaction under the Arrangement Agreement, or termination of the Arrangement Agreement.

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 $1,074,556, were $3,000,444. Additionally, the Company incurred $115,863 of third party legal fees related to the draw. The Company will be reimbursed by Verano for the $1,190,863 in deferred financing pursuant to the Arrangement Agreement. These fees are included as other income in the unaudited statement of loss and comprehensive loss for the six months ended June 30, 2022, and to the extent these fees have not been reimbursed, they are included in our other receivables balance (Note 5).

During the three months ended June 30, 2022, the Company drew $14,000,000 in principal debt from the Delayed Draw Loans. Proceeds received, net of deferred financing fees of $528,938, were $13,471,062.

Unless otherwise specified, 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. The note bears an interest rate of 8% per annum with interest payments 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:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Beginning of year | $ 27,329,907 | $ 1,110,000 |
| Proceeds | 18,075,000 | 30,200,000 |
| Note payable issued in Charm City acquisition | — | 2,000,000 |
| Deferred financing costs | (1,719,357) | (8,607,786) |
| PIK interest | 517,247 | 564,151 |
| Amortization of deferred financing costs | 1,644,972 | 2,123,542 |
| Principal payments | — | (60,000) |
| End of period | 45,847,769 | 27,329,907 |
| Less: Current portion | — | — |
| Total long-term debt | $ 45,847,769 | $ 27,329,907 |

**14. 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 June 30, 2022. The liquidation and dividend rights are identical among shares equally in the Company's earnings and losses on an as converted basis.

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

*Subordinate Voting Shares*

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

*Multiple Voting Shares*

Holders of Multiple Voting Shares are entitled to one hundred votes for each Multiple Voting Share held.

Multiple Voting Shares each have the restricted right to convert to one hundred Subordinate Voting Shares subject to adjustments for certain customary corporate changes.

*Super Voting Shares*

Holders of Super Voting Shares are entitled to one thousand votes per Super Voting Share. Each Super Voting share is convertible into one Multiple Voting Share.

*Shares Issued*

During the six months ended June 30, 2022, 28,134 Multiple Voting Shares were redeemed for 2,813,400 Subordinate Voting Shares.

During the six months ended June 30, 2021, 131,977 Multiple Voting Shares were redeemed for 13,197,700 Subordinate Voting Shares.

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

On June 4, 2021, the Company issued 295,774 shares with a fair value of $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 unaudited condensed consolidated statements of net loss and comprehensive loss for the three and six month periods ended June 30, 2021.

On March 31, 2021, as part of a settlement and release of claims regarding a dispute over certain post-termination terms under his employment agreement, the Company issued 7,110,481 subordinate voting shares to its former Executive Chairman, Bruce Linton, upon a cashless exercise of 10 million warrants that had an exercise price of $1.02 per share and issued him 889,519 subordinate voting shares with a fair value of $1,441,183 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 unaudited condensed consolidated statements of net loss and comprehensive loss for the three months ended March 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.

### 15. Stock-Based Compensation

*Stock Options*

In January 2019, the Company adopted the 2019 Equity Incentive Plan under which the Company may grant incentive stock option, restricted shares, restricted share units, or other awards. Under the terms of the plan, a total of ten percent of the number of shares outstanding assuming conversion of all super voting shares and multiple voting shares to subordinate voting shares are permitted to be issued. The exercise price for incentive stock options issued under the plan will be set by the committee but will not be less 100% of the fair market value of the Company's shares on the date of grant. Incentive stock options have a maximum term of 10 years from the date of grant. The incentive stock options vest at the discretion of the Board.

Options granted under the equity incentive plan were valued using the Black-Scholes option pricing model with the following weighted average assumptions:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Risk-Free Interest Rate | 2.04 % | 1.25 % |
| Weighted Average Exercise Price | $ 1.77 | $ 2.32 |
| Expected Life of Options (years) | 2.50 | 7.00 |
| Expected Annualized Volatility | 55.00 % | 100.00 % |
| Expected Forfeiture Rate | N/A | N/A |
| Expected Dividend Yield | N/A | N/A |

Stock option activity for the six months ended June 30, 2022 and for the year ended December 31, 2021 is presented below:

| | Number of Shares | Weighted Average Exercise Price | Weighted Avg. Remaining Life |
|---|---|---|---|
| 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 | — |
| Balance, December 31, 2021 | 23,226,338 | $ 0.56 | 6.02 |
| Forfeitures | (262,797) | 0.44 | — |
| Exercised | — | — | — |
| Granted | 3,224,119 | 1.77 | — |
| Options Outstanding at June 30, 2022 | 26,187,660 | $ 0.71 | 6.03 |
| | | | |
| Options Exercisable at June 30, 2022 | 19,075,769 | $ 0.45 | 4.98 |

During the six months ended June 30, 2022 and 2021, the Company recognized $1,393,718 and $1,408,639 in stock-based compensation relating to stock options, respectively. During the three months ended June 30, 2022 and 2021, the Company recognized $802,118 and $803,204 in stock-based compensation relating to stock options, respectively. As of June 30, 2022, the total unrecognized compensation costs related to unvested stock options awards granted was $3,093,921. In addition, the weighted average period over which the unrecognized compensation expense is expected to be recognized is approximately 2.7 years. The total intrinsic value of stock options outstanding and exercisable as of June 30, 2022, was $16,226,531 and $15,293,771, 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$** | **June 30, 2022** | **June 30, 2021** |
|---|---|---|
| Risk-Free Interest Rate | N/A | 0.83 % |
| Expected Life of Options (years) | N/A | 5.00 |
| Expected Annualized Volatility | N/A | 100.00 % |
| 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, 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 and June 30, 2022 | — | $ — | — |
| Warrants exercisable at December 31, 2021 and June 30, 2022 | — | $ — | — |

| **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 |
| Granted | — | — | — |
| Warrants outstanding at June 30, 2022 | 3,037,649 | $ 3.50 | 3.74 |
| Warrants exercisable at June 30, 2022 | 3,037,649 | $ 3.50 | 3.74 |

| **MVS Warrants** | **Number of Warrants** | **Weighted Average Exercise Price** | **Weighted Average Remaining Life** |
|---|---|---|---|
| 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 |
| Forfeitures | (1,695) | 297.50 | — |
| Issued | — | — | — |
| Warrants outstanding at June 30, 2022 | 11,888 | $ 180.00 | 0.20 |
| Warrants exercisable at June 30, 2022 | 11,888 | $ 180.00 | 0.20 |

During the three and six months ended June 30, 2022 and 2021, $0 in stock-based compensation expense was recorded in connection with the SVS compensation warrants and $0 in stock-based compensation was recorded in connection with the MVS warrants.

*RSUs*

The expense associated with RSUs is based on closing share price of the Company's common stock on the business day immediately preceding the grant date, adjusted for the absence of future dividends and is amortized on a straight-line basis over the periods during which the restrictions lapse. The Company currently has RSUs that vest over a three year period. The awards are generally subject to forfeiture in the event of termination of employment. During the three and six months ended June 30, 2022 the Company recognized $295,890 and $346,795, respectively, in stock-based compensation expense related to RSUs.

A summary of RSUs is as follows:

| | Number of Shares | Grant Date Fair Value |
|---|---|---|
| Balance, December 31, 2021 | — | $ — |
| Granted | 1,094,200 | 1.77 |
| Balance, June 30, 2022 | 1,094,200 | $ 1.77 |

**16. 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 Health, Inc. ("**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.
On June 20,2022 the Court issued an order amending and realigning the complaint brought by Capital for the Remaining Derivative Claims. The order also denied Vireo U.S.' and Dorchester Management's motion to dismiss the Remaining Derivative Claims brought by Capital.

Following this order, the litigation will proceed with Schneyer's three direct contract claims against Vireo U.S and a direct fraud claim against Management and Vireo U.S. on an individual basis, as well as the Remaining Derivative Claims brought by Capital.

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.

**17. Selling, General and Administrative Expenses**

Selling, general and administrative expenses are comprised of the following items:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Salaries and benefits | $ 4,354,631 | $ 3,760,874 | $ 8,666,877 | $ 7,297,648 |
| Professional fees | 752,645 | 826,367 | 2,632,396 | 1,942,058 |
| Insurance expenses | 1,243,899 | 719,185 | 2,023,896 | 1,317,349 |
| Marketing | 175,588 | 650,705 | 534,348 | 1,212,856 |
| Other expenses | 2,098,676 | 2,342,551 | 4,045,891 | 4,565,762 |
| Total | $ 8,625,439 | $ 8,299,682 | $ 17,903,408 | $ 16,335,673 |

**18. Supplemental Cash Flow Information(1)**

| | Six Months Ended June 30, | |
|---|---|---|
| | 2022 | 2021 |
| Cash paid for interest | $ 6,386,720 | $ 3,527,029 |
| Cash paid for income taxes | 3,000,000 | — |
| Change in construction accrued expenses | 66,988 | 695,974 |
| 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 |

(1) For supplemental cash flow information related to leases, refer to Note 9.

**19. Financial Instruments**

*Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, accounts receivable, and notes receivable. A small portion of cash is held on hand, from which management believes the risk of loss is remote. Receivables relate primarily to wholesale sales. The Company does not have significant credit risk with respect to customers. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments. The Company has been granted licenses pursuant to the laws of the states of Arizona, Maryland, Massachusetts, Minnesota, Nevada, New Mexico, New York, and Puerto Rico with respect to cultivating, processing, and/or distributing marijuana. Presently, this industry is illegal under United States federal law. The Company has adhered, and intends to continue to adhere, strictly to the applicable state statutes in its operations.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of June 30, 2022, the Company's financial liabilities consist of accounts payable and accrued liabilities, and 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 shareholders and debt financing. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity or debt financing.

*Legal Risk*

Goodness Growth operates in the United States. The U.S. federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811), which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the U.S., and a lack of accepted safety for the use of the drug under medical supervision. The U.S. Food and Drug Administration has not approved marijuana as a safe and effective drug for any indication. In the U.S. marijuana is largely regulated at the state level. State laws regulating cannabis are in direct conflict with the federal Controlled Substances Act, which makes cannabis use and possession federally illegal.

*Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates.

*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company currently does not carry variable interest-bearing debt. Management believes that the Company is not exposed to significant interest rate risk.

**20. Related Party Transactions**

As of June 30, 2022, and December 31, 2021, there were $0 and $98,750 due to related parties, respectively.

For the six months ended June 30, 2022, and 2021, the Company paid a related party (Bengal Impact Partners, of which a member of the Company's Board of Directors is a managing partner) $60,000 and $0, respectively, for ongoing corporate advisory services.

Certain directors and officers of the Company (Kyle Kingsley, Amber Shimpa, and Stephen Dahmer) owned OMS, which was sold on March 31, 2021 (Note 3). None of the proceeds received from this transaction were paid to the aforementioned directors and officers, rather, they were owed and paid to the Company.

**21. Subsequent Events**

In July of 2022, the Company drew an additional $6,000,000 in net proceeds from the Delayed Draw Loans.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis of our financial condition and results of operations together with the financial information and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our outlook, plans and strategy for our business and related financing, includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or "forward-looking information" within the meaning of Canadian securities laws. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "remain," "could," "estimate," "expect," "intend," "may," "plan," "project," "will," "would," "should," "potential," "intention," "strategy," "strategic," "approach," "subject to," "possible," "pending," "if," or the negative or plural of these words or similar expressions or variations. Such forward-looking statements and forward-looking information are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements or forward-looking information. Factors that could cause or contribute to such differences include, but are not limited to, those identified in this Quarterly Report on Form 10-Q and those discussed in the section titled "Risk Factors" set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 and in our other SEC and Canadian public filings. Such forward-looking statements reflect our beliefs and opinions on the relevant subject based on information available to us as of the date of this report, and while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements. You should not rely upon forward-looking statements or forward-looking information as predictions of future events. Furthermore, such forward-looking statements or forward-looking information speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements or forward-looking information to reflect events or circumstances after the date of such statements.*

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

***Overview of the Company***

Goodness Growth is a physician-led, science-focused company and IP developer focused on building long-term, sustainable value by bringing the best of medicine, science, and engineering to the cannabis industry. With our core operations strategically located in four limited-license markets through our state-licensed subsidiaries, we cultivate and manufacture cannabis products and distribute these products through our growing network of Green Goods® and other retail dispensaries we own or operate as well as to third-party dispensaries in the markets in which our subsidiaries hold operating licenses.

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

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

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

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, and other customary conditions of closing

***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 and thus far in 2022, 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.

***Three months ended June 30, 2022, Compared to Three months ended June 30, 2021***

<u>Revenue</u>

We derived our revenue from cultivating, processing, and distributing cannabis products through our eighteen dispensaries in four states and our wholesale sales to third parties in four states. For the three months ended June 30, 2022, 81% of our revenue was generated from retail dispensaries and 19% from wholesale business. For the three months ended June 30, 2021, 79% of our revenue was generated from retail business and 21% from wholesale business.

For the three months ended June 30, 2022, Minnesota operations contributed approximately 48% of revenues, New York contributed 18%, Arizona contributed 6%, New Mexico contributed 11%, and Maryland contributed 17%. For the three months ended June 30, 2021, Minnesota operations contributed approximately 38% of revenues, New York contributed 31%, Arizona contributed 14%, New Mexico contributed 5%, and Maryland contributed 12%.

Revenue for the three-months ended June 30, 2022 was $21,090,148, an increase of $6,859,248 or 48% compared to revenue of $14,230,900 for the three-months ended June 30, 2021. The increase is primarily attributable to increased revenue contributions from the retail businesses in Minnesota and New Mexico of $4.6 million and $1.7 million respectively, partially offset by the lack of second quarter 2022 retail revenues in Arizona, which was divested in the fourth quarter of 2021. Key revenue drivers are the increased patient demand in Minnesota driven by the addition of cannabis flower to the Minnesota medical program in March of 2022, and the commencement of recreational marijuana sales in New Mexico on April 1, 2022.

Retail revenue for the three months ended June 30, 2022 was $17,041,492 an increase of $5,739,995 or 51% compared to retail revenue of $11,301,497 for the three months ended June 30, 2021 primarily due to revenue contributions from Minnesota and New Mexico.

Wholesale revenue for the three months ended June 30, 2022 was $4,048,656, an increase of $1,119,253 compared to wholesale revenue of $2,929,403 for the three months ended June 30, 2021. The increase in revenue contributions was primarily due to increased wholesale demand in Maryland, and the sale of our remaining Arizona inventory.

| | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | $Change | % Change |
|---|---|---|---|---|
| **Retail:** | | | | |
| MN | $ 9,928,201 | $ 5,361,221 | $ 4,566,980 | 85 % |
| NY | 2,792,734 | 2,861,785 | (69,051) | (2)% |
| AZ | — | 1,536,448 | (1,536,448) | (100)% |
| NM | 2,340,575 | 674,045 | 1,666,530 | 247 % |
| MD | 1,979,982 | 867,998 | 1,111,984 | 128 % |
| **Total Retail** | **$ 17,041,492** | **$ 11,301,497** | **$ 5,739,995** | **51 %** |
| | | | | |
| **Wholesale:** | | | | |
| AZ | $ 1,344,620 | $ 561,038 | $ 783,582 | 140 % |
| MD | 1,565,835 | 805,994 | 759,841 | 94 % |
| NY | 909,521 | 1,562,371 | (652,850) | (42)% |
| MN | 228,680 | — | 228,680 | 100 % |
| **Total Wholesale** | **$ 4,048,656** | **$ 2,929,403** | **$ 1,119,253** | **38 %** |
| | | | | |
| **Total Revenue** | **$ 21,090,148** | **$ 14,230,900** | **$ 6,859,248** | **48 %** |
| AZ | $ (1,344,620) | $ (2,097,486) | $ 752,866 | (36)% |
| **Total Revenue excluding AZ** | **$ 19,745,528** | **$ 12,133,414** | **$ 7,612,114** | **63 %** |
| N.M. Not Meaningful | | | | |

*Cost of Goods Sold and Gross Profit*

Gross profit reflects total net revenue less cost of goods sold. Cost of goods sold represents the costs attributable to producing bulk materials and finished goods, which includes direct materials, labor, and certain indirect costs such as depreciation, insurance and utilities. Cannabis costs are affected by various state regulations that limit the sourcing and procurement of cannabis product, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes.

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

Cost of goods sold for the three months ended June 30, 2022 was $10,723,122, an increase of $3,405,111 compared to the three months ended June 30, 2021 of $7,318,011, driven by higher production volume and sales.

Gross profit for the three months ended June 30, 2022 was $10,367,026, representing a gross margin of 49%. This is compared to gross profit for the three months ended June 30, 2021 of $6,912,889 or a 49% gross margin. The increase in gross profit was driven by higher sales, while maintaining margins.

Our current production capacity has not been fully realized and we expect future gross profits to increase with revenue growth reflective of higher demand, increased product output and new product development. However, we expect gradual price compression as markets mature that could place downward pressure on our retail and wholesale gross margins.

*Total Expenses*

Total expenses other than the cost of goods sold consist of selling costs to support customer relationships, marketing, and branding activities. It also includes a significant investment in the corporate infrastructure required to support ongoing business.

Selling costs generally correlate to revenue. In the short-term as a percentage of sales, we expect selling costs to remain relatively flat. However, as positive regulatory developments in our core markets occur, we expect selling costs as a percentage of sales to decrease via growth in our retail and wholesale channels.

General and administrative expenses also include costs incurred at the corporate offices, primarily related to personnel costs, including salaries, benefits, and other professional service costs, as well as corporate insurance, legal and professional fees associated with being a publicly traded company. We expect general and administrative expenses as a percentage of sales to decrease as we realize revenue growth organically and through positive regulatory developments in our core markets.

Total expenses for the three months ended June 30, 2022 were $10,058,841 a decrease of $101,610 compared to total expenses of $10,160,451 for the three months ended June 30, 2021. The decrease in total expenses was attributable to a decrease in stock-based compensation expenses of $310,072.

*Operating Income (Loss) before Income Taxes*

Operating income (loss) before other income (expense) and provision for income taxes for the three months ended June 30, 2022 was $308,185 an increase of $3,555,747 compared to an operating loss of ($3,247,562) for the three months ended June 30, 2021.

*Total Other Income (Expense)*

Total other expense for the three months ended June 30, 2022 was $(5,446,261), a change of $2,591,848 compared to other expense of $(2,854,413) for the three months ended June 30, 2021. This change is primarily attributable to increased interest expense driven by the Credit Facility.

*Provision for Income Taxes*

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the three months ended June 30, 2022, tax expense totaled $1,045,000 compared to a tax expense of $910,000 for the three months ended June 30, 2021. The increase in tax expense is primarily attributable to increased gross profit partially offset the recognition of deferred tax assets related to property, plant, and equipment impairments.

***Six months ended June 30, 2022 Compared to Six months ended June 30, 2021***

*Revenue*

We derived our revenue from cultivating, processing, and distributing cannabis products through our eighteen dispensaries in four states and our wholesale sales to third parties in five states. For the six months ended June 30, 2022, 80% of the revenue was generated from retail business and 20% from wholesale business. For the six months ended June 30, 2021, 79% of the revenue was generated from retail dispensaries and 21% from wholesale business.

For the six months ended June 30, 2022, Minnesota operations contributed approximately 47% of revenues, New York contributed 20%, Arizona contributed 6%, New Mexico contributed 9%, and Maryland contributed 18%. For the six months ended June 30, 2021, Minnesota operations contributed approximately 39% of revenues, New York contributed 27%, Arizona contributed 21%, New Mexico contributed 5%, and Maryland contributed 8%.

Revenue for the six months ended June 30, 2022 was $36,728,720, an increase of $9,307,931 or 34% compared to revenue of $27,420,789 for the six months ended June 30, 2021. The increase is primarily attributable to increased revenue contributions from the retail businesses in Minnesota, New Mexico, and Maryland, partially offset by the lack of Arizona retail revenues, which was divested in the fourth quarter of 2021. Key revenue drivers are the acquisition of the Charm City dispensary in Maryland in the fourth quarter of 2021, increased patient demand in Minnesota, which is the result of the addition of cannabis flower to the Minnesota medical program in March of 2022, and the and the commencement of recreational marijuana sales in New Mexico on April 1, 2022.

Retail revenue for the six months ended June 30, 2022 was $29,453,715, an increase of $7,769,098 or 36% compared to retail revenue of $21,684,617 for the six months ended June 30, 2021 primarily due to revenue contributions from Minnesota, New Mexico, and Maryland, partially offset by the lack of Arizona retail revenues.

Wholesale revenue for the six months ended June 30, 2022 was $7,275,005, an increase of $1,538,833 compared to wholesale revenue of $5,736,172 for the six months ended June 30, 2021. The increase in revenue contributions was primarily due to increased wholesale demand in Minnesota and Maryland, partially offset by declining revenues in Arizona.

| | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 | $ Change | % Change |
|---|---|---|---|---|
| **Retail:** | | | | |
| MN | $ 16,592,289 | $ 10,587,312 | $ 6,004,977 | 57 % |
| NY | 5,651,627 | 5,789,139 | (137,512) | (2)% |
| AZ | — | 3,062,310 | (3,062,310) | (100)% |
| NM | 3,263,928 | 1,320,342 | 1,943,586 | 147 % |
| MD | 3,945,871 | 925,514 | 3,020,357 | 326 % |
| **Total Retail** | **$ 29,453,715** | **$ 21,684,617** | **$ 7,769,098** | **36 %** |
| | | | | |
| **Wholesale:** | | | | |
| AZ | $ 2,355,683 | $ 2,526,971 | $ (171,288) | (7)% |
| MD | 2,828,423 | 1,398,091 | 1,430,332 | 102 % |
| NY | 1,418,759 | 1,744,427 | (325,668) | (19)% |
| MN | 672,140 | — | 672,140 | 100 % |
| OH | — | 66,683 | (66,683) | (100)% |
| **Total Wholesale** | **$ 7,275,005** | **$ 5,736,172** | **$ 1,538,833** | **27 %** |
| | | | | |
| **Total Revenue** | **$ 36,728,720** | **$ 27,420,789** | **$ 9,307,931** | **34 %** |
| AZ and OH Revenue | $ (2,355,683) | $ (5,655,964) | $ 3,300,281 | (58)% |
| **Total Revenue excluding AZ and OH** | **$ 34,373,037** | **$ 21,764,825** | **$ 12,608,212** | **58 %** |
| N.M. Not Meaningful | | | | |

*Cost of Goods Sold and Gross Profit*

Cost of goods sold for the six months ended June 30, 2022 was $23,873,016, an increase of $8,980,957 compared to the six months ended June 30, 2021 of $14,892,059, driven by higher production volume and sales.

Gross profit for the six months ended June 30, 2022 was $12,855,704, representing a gross margin of 35%. This is compared to gross profit for the six months ended June 30, 2021 of $12,528,730 or a 46% gross margin. The decrease in margin was driven by an increase in inventory valuation adjustments of $3,413,788 compared to the six months ended June 30, 2021. Excluding inventory valuation adjustments, margins were relatively flat. These inventory valuation adjustments were driven by substantial write downs of Arizona inventory to net realizable value.

Our current production capacity has not been fully realized and we expect future gross profits to increase with revenue growth reflective of higher demand, increased product output and new product development. However, we expect gradual price compression as markets mature that could place downward pressure on our retail and wholesale gross margins.

*Total Expenses*

Total expenses for the six months ended June 30, 2022 were $20,307,678, a decrease of $313,387 compared to total expenses of $20,621,065 for the six months ended June 30, 2021. The decrease in total expenses was attributable to a decrease in stock-based compensation expenses of approximately $1.7 million partially offset by increase general and administrative expenses of $1.6 million which was driven by an increase in professional fees related to the merger and salaries.

*Operating Loss before Income Taxes*

Operating loss before other income (expense) and provision for income taxes for the six months ended June 30, 2022 was $(7,451,974), a decrease of $640,361 compared to $(8,092,335) for the six months ended June 30, 2021.

*Total Other Expense*

Total other expenses for the six months ended June 30, 2022 were $13,992,884, an increase of $10,606,100 compared to $3,386,784 for the six months ended June 30, 2021. This increase is primarily attributable to the loss on impairment of long-lived assets of $5,367,915 and increased interest expense driven by the Credit Facility.

*Provision for Income Taxes*

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the six months ended June 30, 2022, tax recoveries totaled $695,000 compared to a tax expense of $2,410,000 for the six months ended June 30, 2021. The increase in tax recoveries is primarily attributable to the recognition of deferred tax assets related to property, plant, and equipment impairments.

**NON-GAAP MEASURES**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Net income (loss)** | $ (6,183,076) | $ (7,011,975) | $ (20,749,858) | $ (13,889,119) |
| Interest expense, net | 5,297,823 | 2,756,358 | 9,899,622 | 3,782,504 |
| Income taxes | 1,045,000 | 910,000 | (695,000) | 2,410,000 |
| Depreciation & Amortization | 335,394 | 452,689 | 663,757 | 830,694 |
| Depreciation included in cost of goods sold | 613,863 | 478,537 | 1,314,056 | 986,896 |
| **EBITDA (non-GAAP)** | $ 1,109,004 | $ (2,414,391) | $ (9,567,423) | $ (5,879,025) |
| Inventory adjustment | 59,871 | 45,000 | 3,526,788 | 113,000 |
| Loss on impairment of long-lived assets | 54,739 | — | 5,367,915 | — |
| Stock-based compensation | 1,098,008 | 1,408,080 | 1,740,513 | 3,454,698 |
| Other income | — | — | (1,190,863) | — |
| Gain (loss) on disposal of assets | 10,930 | — | (157,429) | (437,107) |
| **Adjusted EBITDA (non-GAAP)** | $ 2,332,552 | $ (961,311) | $ (280,499) | $ (2,748,434) |

**Liquidity, Financing Activities During the Period, and Capital Resources**

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

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

*Credit Facility*

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.

On January 31, 2022, we entered into a Third Amendment to our Credit Facility (the "Third Amendment") providing for additional 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, we 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 our 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 us for all interest expenses related to the Third Amendment in excess of 10% per annum until the earlier of either the completion of the Arranagement or termination of the Arrangement Agreement.

On March 3, 2022, we 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. Additionally, we incurred $115,863 of third party legal fees related to the draw. We expect to be reimbursed by Verano for the $1,075,000 in deferred financing fees netted against the proceeds received pursuant to the Arrangement Agreement, and as such these are fees are included in our receivables balance (Note 5) as of March 31, 2022.

During the three months ended June 30, 2022, the Company drew $14,000,000 in principal debt from the Delayed Draw Loans. Proceeds received, net of deferred financing fees of $528,938, were $13,471,062.

Unless otherwise specified, 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, we 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

*Cash Used in Operating Activities*

Net cash used in operating activities was $9.8 million for the six months ended June 30, 2022, a decrease of $7.6 million as compared to the six months ended June 30, 2021. The decrease is primarily attributed to more favorable changes in working capital items.

*Cash Used in Investing Activities*

Net cash used in investing activities was $3.7 million for the six months ended June 30, 2022, compared to net cash used in investing activities of $11.5 million for the six months ended June 30, 2021. The decrease is primarily attributable to decreased property, plant, and equipment additions relative to the prior year quarter.

*Cash Provided by Financing Activities*

Net cash provided by financing activities was $15.4 million for the six months ended June 30, 2022, a decrease of $7.3 million as compared to the six months ended June 30, 2021. The decrease was principally due to the receipt of approximately $23 million in net proceeds from the Credit Facility in the first six months of 2021, compared to the receipt of approximately $16 million in net proceeds in the first six months of 2022.

**Lease Transactions**

As of June 30, 2022, we have entered into lease agreements for the use of buildings used in cultivation, production and/or sales of cannabis products in Arizona, Maryland, Minnesota, Nevada, New Mexico, New York, and Puerto Rico.

The lease agreements for all of the retail space used for our dispensary operations are with third-party landlords and remaining duration ranges from 1 to 6 years. These agreements are short-term facility leases that require us to make monthly rent payments as well as funding common area costs, utilities and maintenance. In some cases, we have received tenant improvement funds to assist in the buildout of the space to meet our operating needs. As of June 30, 2022, we operated 18 retail locations secured under these agreements.

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

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

| | Operating Leases June 30, 2022 | Finance Leases June 30, 2022 | Total |
|---|---|---|---|
| 2022 | $ 1,261,677 | $ 4,161,865 | $ 5,423,542 |
| 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 | $ 12,088,797 | $ 253,315,959 | $ 265,404,756 |
| Less discount to net present value | (3,976,223) | (178,059,022) | (182,035,245) |
| Less liabilities held for sale | — | (1,140,828) | (1,140,828) |
| Present value of lease liability | $ 8,112,574 | $ 74,116,109 | $ 82,228,683 |

**<u>ADDITIONAL INFORMATION</u>**

**Outstanding Share Data**

As of August 9, 2022, we had 85,101,227 shares issued and outstanding, consisting of the following:

*(a) Subordinate voting shares*

84,666,630 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*

369,186 shares issued and outstanding. The holders of multiple voting shares are entitled to one hundred votes per share at all shareholder meetings. Each multiple voting share is exchangeable for one hundred subordinate voting shares. The Company is authorized to issue an unlimited number of multiple voting shares.

*(c) Super voting shares*

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

**Options, Warrants, and Convertible Promissory Notes**

As of June 30, 2022, we have 26,187,660 employee stock options outstanding, 1,094,200 RSUs, as well as 3,037,649 SVS warrants denominated in C$ and 11,888 MVS warrants related to financing activities.

**Off-Balance Sheet Arrangements**

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

**Outlook**

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

**Critical Accounting Policies**

There have been no material changes to our critical accounting policies and estimates from the information provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our 2021 Annual Report on Form 10-K for the year ended December 31, 2021.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

**Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) are designed to ensure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the appropriate time periods, and that such information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

During the year ended December 31, 2021, we identified a material weakness in our internal control environment related to the accounting treatment of warrants issued in connection with the Credit Facility, which have a Canadian dollar exercise price. Management has an established process for appropriately accounting for infrequent and unusual transactions. We believe that this material weakness was a result of the misapplication of the GAAP accounting guidance. The material weakness did not result in any material misstatements to the issued financial statements. However, the previously released financial results for the three and six months ended June 30, 2021 were restated in connection with the issuance of this Form 10-Q (Note 2).

Management has been implementing and continues to implement measures designed to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively. The remediation actions include consultation with external GAAP accounting experts on non-recurring, significant, or unusual transactions. We believe that these actions will remediate the material weakness. The weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. Sufficient time and testing has not yet occurred, but we expect that the remediation of this material weakness will be completed prior to the end of 2022.

Management believes that our consolidated financial statements included in this Form 10-Q have been prepared in accordance with U.S. GAAP. Our CEO and CFO have certified that, based on their knowledge, the financial statements, and other financial information included in this Form 10-Q, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Form 10-Q. However, soley due to the unremediated material weakness identified in the prior year, the Company's management concluded that at June 30, 2022, the Company's internal control over financial reporting was not effective.

***Changes in Internal Control over Financial Reporting***

Except as noted in the preceding paragraphs, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) during the three months ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

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

***Schneyer Litigation***

On February 25, 2019, Dr. Mark Schneyer ("**Schneyer**") filed a lawsuit in Minnesota District Court, Fourth District (the "**Court**"), on his own behalf and, derivatively, on behalf of Dorchester Capital, LLC, naming Vireo Health, Inc. ("**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.
On June 20,2022 the Court issued an order amending and realigning the complaint brought by Capital for the Remaining Derivative Claims. The order also denied Vireo U.S.' and Dorchester Management's motion to dismiss the Remaining Derivative Claims brought by Capital.

Following this order, the litigation will proceed with Schneyer's three direct contract claims against Vireo U.S and a direct fraud claim against Management and Vireo U.S. on an individual basis, as well as the Remaining Derivative Claims brought by Capital.

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.

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

No unregistered sales of equity securities occurred during the six months ended June 30, 2022.

**Item 6. Exhibits**

| Exhibit No. | Description of Exhibit |
|---|---|
| 31.1 | Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) certification of Chief Financial Officer |
| 32.1 | Section 1350 certification, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | Includes the following financial and related information from Goodness Growth's Quarterly Report on Form 10-Q as of and for the quarter ended June 30, 2022, formatted in Inline Extensible Business Reporting Language (iXBRL): (1) the Consolidated Balance Sheets, (2) the Consolidated Statements of Income, (3) the Consolidated Statements of Comprehensive Income, (4) the Consolidated Statements of Changes in Stockholders' Equity, (5) the Consolidated Statements of Cash Flows, and (6) Notes to Consolidated Financial Statements. |
| 104 | The cover page from this Quarterly Report on Form 10-Q, formatted in Inline XBRL. |

## SIGNATURES

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

**GOODNESS GROWTH HOLDINGS, INC.**

| | | |
|---|---|---|
| Date: August 11, 2022 | By: | */s/ Kyle E. Kingsley* |
| | | Name: Kyle E. Kingsley |
| | | Title: Chief Executive Officer |
| Date: August 11, 2022 | By: | */s/ John A. Heller* |
| | | Name: John A. Heller |
| | | Title: Chief Financial Officer |

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO**
**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,**
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kyle E. Kingsley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Goodness Growth Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2022

By: */s/ Kyle E. Kingsley*
Kyle E. Kingsley
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO**
**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,**
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John A. Heller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Goodness Growth Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2022

By: */s/ John A. Heller*
John A. Heller
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the report of Goodness Growth Holdings, Inc. (the "**Company**") on Form 10-Q for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "**Report**"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ Kyle E. Kingsley*
Kyle E. Kingsley
Chief Executive Officer
August 11, 2022

*/s/ John A. Heller*
John A. Heller
Chief Financial Officer
August 11, 2022