Item 8. Financial Statements and Supplementary Data

DAVIDSON & COMPANY LLP Chartered Professional Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
Goodness Growth Holdings, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Goodness Growth Holdings, Inc. (the "Company") as of December 31, 2022 and 2021, and the related consolidated statements of net loss and comprehensive loss, changes in stockholders' equity, and cash flows for the years ended December 31, 2022 and 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Goodness Growth Holdings, Inc. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years ended December 31, 2022 and 2021, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has concluded that the historical recurring losses from operations, negative cash flows from operations, dependence on debt and other financings and the termination of the Arrangement Agreement gives rise to substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

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

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

/s/ Davidson & Company LLP

Vancouver, Canada | Chartered Professional Accountants

March 31, 2023

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

	December 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash	$ 15,149,333	$ 15,155,279
Accounts receivable, net of allowance for doubtful accounts of $453,860 and $572,080, respectively	4,286,072	4,502,469
Inventory	20,508,023	20,422,061
Prepayments and other current assets	2,544,532	1,560,113
Assets Held for Sale	4,240,781	—
Total current assets	46,728,741	41,639,922
Property and equipment, net	89,606,932	99,488,559
Operating lease, right-of-use asset	6,110,787	8,510,499
Notes receivable, long-term	3,750,000	3,750,000
Intangible assets, net	8,776,946	10,184,289
Goodwill	183,836	183,836
Deposits	2,312,161	1,718,206
Deferred tax assets	1,687,000	1,495,000
Total assets	$ 159,156,403	$ 166,970,311
Liabilities		
Current liabilities		
Accounts Payable and Accrued liabilities	$ 14,928,780	$ 14,805,473
Long-Term debt, current portion	11,780,000	—
Right of use liability	1,680,294	1,600,931
Liabilities held for sale	1,319,847	—
Total current liabilities	29,708,921	16,406,404
Right-of-use liability	79,757,994	80,228,097
Long-Term debt, net	46,248,604	27,329,907
Total liabilities	$ 155,715,519	$ 123,964,408
Commitments and contingencies (refer to Note 16)		
Stockholders' equity		
Subordinate Voting Shares ($- par value, unlimited shares authorized; 86,721,030 shares issued and outstanding)	—	—
Multiple Voting Shares ($- par value, unlimited shares authorized; 348,642 shares issued and outstanding)	—	—
Super Voting Shares ($- par value; unlimited shares authorized; 65,411 shares issued and outstanding, respectively)	—	—
Additional Paid in Capital	181,321,847	178,429,422
Accumulated deficit	(177,880,963)	(135,423,519)
Total stockholders' equity	$ 3,440,884	$ 43,005,903
Total liabilities and stockholders' equity	$ 159,156,403	$ 166,970,311

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

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

	2022	2021
Revenue	$ 74,625,867	$ 54,446,168
Cost of sales		
Product costs	39,423,918	32,006,403
Inventory valuation adjustments	4,293,788	2,641,080
Gross profit	30,908,161	19,798,685
Operating expenses:		
Selling, general and administrative	33,823,686	33,655,780
Stock-based compensation expenses	2,694,197	5,182,641
Depreciation	653,077	624,613
Amortization	676,566	817,215
Total operating expenses	37,847,526	40,280,249
Income (loss) from operations	(6,939,365)	(20,481,564)
Other income (expense):		
Impairment of long-lived assets	(8,596,201)	(5,169,951)
Gain on disposal of assets	322,181	6,903,039
Interest expenses, net	(22,593,552)	(10,575,370)
Other income (expenses)	1,242,493	(244,629)
Other income (expenses), net	(29,625,079)	(9,086,911)
Loss before income taxes	(36,564,444)	(29,568,475)
Current income tax expenses	(6,085,000)	(5,460,000)
Deferred income tax recoveries	192,000	1,338,000
Net loss and comprehensive loss	(42,457,444)	(33,690,475)
Net loss per share - basic and diluted	$ (0.33)	$ (0.27)
Weighted average shares used in computation of net loss per share - basic & diluted	128,126,330	123,814,521

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

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

	Common Stock								
	SVS		MVS		Super Voting Shares				
	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	15,140,700	—	(151,407)	—	—	—	—	—	—
Shares issued in Nevada acquisition	1,050,000	—	—	—	—	—	1,385,239	—	1,385,239
Shares issued in Charm City acquisition	1,459,803	—	—	—	—	—	1,367,590	—	1,367,590
Options exercised	4,289,392	—	—	—	—	—	1,209,605	—	1,209,605
Warrants exercised	7,110,481	—	—	—	—	—	—	—	—
Warrants issued in financing activities	—	—	—	—	—	—	5,395,759	—	5,395,759
Stock-based compensation	1,185,293	—	—	—	—	—	4,991,615	—	4,991,615
Net Loss	—	—	—	—	—	—	—	(33,690,475)	(33,690,475)
Balance at December 31, 2021	81,298,228	$ —	402,720	$ —	65,411	$ —	$ 178,429,422	$(135,423,519)	$ 43,005,903
Balance, January 1, 2022	81,298,228	$ —	402,720	$ —	65,411	$ —	$ 178,429,422	$(135,423,519)	$ 43,005,903
Conversion of MVS shares	5,407,800	—	(54,078)	—	—	—	—	—	—
Options exercised	15,002	—	—	—	—	—	7,201	—	7,201
Stock-based compensation	—	—	—	—	—	—	2,885,224	—	2,885,224
Net Loss	—	—	—	—	—	—	—	(42,457,444)	(42,457,444)
Balance at December 31, 2022	86,721,030	$ —	348,642	$ —	65,411	$ —	$ 181,321,847	$(177,880,963)	$ 3,440,884

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

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

	December 31, 2022	December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (42,457,444)	$ (33,690,475)
Adjustments to reconcile net loss to net cash used in operating activities:		
Inventory valuation adjustments	4,293,788	2,641,080
Depreciation	653,077	624,613
Depreciation capitalized into inventory	2,682,818	2,404,711
Non-cash operating lease expense	934,443	1,005,754
Amortization of intangible assets	676,566	817,215
Stock-based payments	2,885,223	5,182,641
Interest Expense	4,935,616	2,687,693
Impairment of long-lived assets	8,596,201	5,169,951
Deferred income tax	(192,000)	(1,338,000)
Accretion	3,979,503	1,932,316
Gain on Sale of Property and Equipment	(173,938)	—
Gain on disposal of AZ Dispensary	—	(6,465,932)
Gain on disposal of OMS	—	(437,107)
Gain on disposal of royalty asset	(168,359)	—
Change in operating assets and liabilities:		
Accounts Receivable	227,747	(3,488,926)
Prepaid expenses	(984,419)	8,996
Inventory	(3,992,663)	(10,347,840)
Accounts payable and accrued liabilities	30,576	2,651,270
Change in assets and liabilities held for sale	—	124,843
Net cash used in operating activities	$ (18,073,265)	$ (30,517,197)
CASH FLOWS FROM INVESTING ACTIVITIES:		
PP&E Additions	$ (5,561,663)	$ (18,043,946)
Proceeds from sale of AZ Dispensary net of cash	—	15,125,010
Proceeds from sale of property, plant, and equipment	395,458	—
Proceeds from sale of royalty asset	236,635	—
Acquisition of Charm City	—	(3,543,830)
Acquisition of MJ Distributing	—	(1,592,500)
Proceeds from sale of OMS net of cash	—	1,150,000
Deposits	(686,948)	(306,082)
Net cash provided by (used in) investing activities	$ (5,616,518)	$ (7,211,348)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt, net of issuance costs	$ 25,763,080	$ 27,108,239
Convertible debt payment	—	(900,000)
Proceeds from option exercises	7,201	1,209,605
Proceeds from warrant exercises	—	—
Debt principal payments	—	(60,000)
Lease principal payments	(2,086,444)	(1,579,700)
Net cash provided by financing activities	$ 23,683,837	$ 25,778,144
Net change in cash	$ (5,946)	$ (11,950,401)
Cash and restricted cash, beginning of year	$ 15,155,279	$ 27,105,680
Cash and restricted cash, end of year	$ 15,149,333	$ 15,155,279

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

GOODNESS GROWTH HOLDINGS, INC.
Notes to Consolidated Financial Statements

1. Description of Business and Summary

Goodness Growth Holdings, Inc. ("**Goodness Growth**" or the "**Company**") (formerly, Vireo Health International, Inc.) was incorporated under the Alberta Business Corporations Act on November 23, 2004. The Company was previously 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 cannabis company whose mission is to provide safe access, quality products and value to its customers while supporting its local communities through active participation and restorative justice programs. Goodness Growth operates cannabis cultivation, production, and dispensary facilities in Maryland, Minnesota, New Mexico, and New York, and formerly in Arizona and Ohio.

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, the Company entered into an Arrangement Agreement (the "Arrangement Agreement") with Verano Holdings Corp. ("**Verano**"), pursuant to which Verano was to 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 would 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.

On October 13, 2022, Goodness Growth received a notice of purported termination of the Arrangement Agreement (the "**Notice**") from Verano. The Notice asserted certain breaches of the Arrangement Agreement, including claims the Company's public filings and communications with respect to its business and ongoing operations were misleading and that the Company breached its representations to Verano under the Arrangement Agreement. Verano also claimed, as a result of such breaches, it is entitled to payment of the $14,875,000 termination fee and its transaction expenses. Goodness Growth denies all of Verano's allegations and affirmatively asserts that it has complied with its obligations under the Arrangement Agreement, and with its disclosure obligations under US and Canadian law, in all material respects at all times. The Company believes that Verano has no factual or legal basis to justify or support its purported grounds for termination of the Arrangement Agreement.

On October 21, 2022, Goodness Growth commenced an action in the Supreme Court of British Columbia against Verano after Verano repudiated the Arrangement Agreement. The Company is seeking damages, costs and interest, based on Verano's breach of contract and of its duty of good faith and honest performance. On November 14, 2022, Verano filed counterclaims against the Company for the termination fee and transaction expenses described above. Due to uncertainties inherent in litigation, it is not possible for Goodness Growth to predict the timing or final outcome of the legal proceedings against Verano or to determine the amount of damages, if any, that may be awarded.

2. Summary of Significant Accounting Policies

Basis of presentation and going concern

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

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. We anticipate that we will continue to report losses and negative cash flow for the foreseeable future. We have concluded that our historical recurring losses from operations and negative cash flows from operations as well as our dependence on debt and other financings and the termination of the Arrangement Agreement gives rise to substantial doubt about the Company’s ability to meet its obligations over the next twelve months. Company management is working with the Company’s lenders, counsel, and other applicable parties to implement a plan to effectively mitigate the conditions giving rise to substantial doubt. Elements of this plan may include, but are not limited to, asset sales, debt restructuring, and capital raises. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, the Company’s continuance as going concern is dependent on its future profitability and implementation of the aforementioned plan. The Company may not be successful in these efforts.

These consolidated financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the Company’s financial position and results of operations.

Basis of consolidation

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

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

Recently adopted accounting pronouncements

In 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.

Use of estimates and significant judgments

The preparation of the Company's consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of revenue, expenses, assets, liabilities, accompanying disclosures and the disclosure of contingent liabilities. These estimates and judgments are subject to change based on experience and new information which could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities affecting future periods. Estimates and judgments are assessed on an ongoing basis. Revisions to estimates are recognized prospectively.

Examples of key estimates in these consolidated financial statements include cash flows and discount rates used in accounting for business combinations including contingent consideration, asset impairment including estimated future cash flows and fair values, the allowance for doubtful accounts receivable and trade receivables, inventory valuation adjustments that contemplate the market value of, and demand for inventory, estimated useful lives of property and equipment and intangible assets, valuation allowance on deferred income tax assets, determining the fair value of financial instruments, fair value of stock-based compensation, estimated variable consideration on contracts with customers, estimated redemption rates on loyalty sales programs, estimated paid time off redemption rates, sales return estimates, the fair value of the convertible notes and equity component and the classification, incremental borrowing rates and lease terms applicable to lease contracts.

Financial statement areas that require significant judgments are as follows:

Assets held for sale and discontinued operations - The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and their fair value less cost to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or the disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

A discontinued operation is a component of the Company that either has been abandoned, disposed of, or is classified as held for sale, and: (i) disposal group is a component of an entity (or group of components); (ii) component of an entity (or group of components) meets the held for sale criteria, is disposed of by sale, or is disposed of other than by sale; (iii) component of an entity (or group of components) represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. A component of the Company comprises an operation and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company. During the years ended December 31, 2022 and 2021, the Company completed various divestitures, further described in Note 3. Management considered the quantitative results of the divested entities as well as qualitative strategic considerations to judge whether the two divestitures constitute a discontinued operation. Management does not believe these divestitures represent a strategic shift that has or will have a major effect on an entity's operations and financial results, and as such, none of these divestitures are considered a discontinued operation.

Definition of a business – Determination of what constitutes a business for purposes of acquisition accounting requires significant judgement. ASC 805 notes that if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business. However, the exact quantitative threshold is not explicitly defined. During the year ended December 31, 2022, no acquisition activity occurred. During the year ended December 31, 2021, the Company completed two acquisitions, further described in Note 3. Management determined that substantially all of the fair value of the assets acquired was concentrated in the licenses acquired, and as such they should be treated as asset acquisitions.

Asset impairment – Asset impairment tests require the allocation of assets to asset groups, where appropriate, which requires significant judgment and interpretation with respect to the integration between the assets and shared resources. Asset impairment tests require the determination of whether there is an indication of impairment. The assessment of whether an indication of impairment exists is performed at the end of each reporting period and requires the application of judgment, historical experience, and external and internal sources of information.

Leases – The Company applies judgment in determining whether a contract contains a lease and if a lease is classified as an operating lease or a finance lease. The Company determines the lease term as the non-cancellable term of the lease, which may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

The Company has several lease contracts that include extension and termination options. The Company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Company also applies judgment in allocating the consideration in a contract between lease and non-lease components. It considers whether the Company can benefit from the right-of-use asset either on its own or together with other resources and whether the asset is highly dependent on or highly interrelated with another right-of-use asset.

Foreign currency

These consolidated financial statements are presented in the United States dollar ("**USD**"), which is the Company's reporting currency. The functional currency of the Company and its subsidiaries, as determined by management, is the United States ("**US**") dollar.

Net loss per share

Basic net loss per share is computed by dividing reported net loss by the weighted average number of common shares outstanding for the reported period. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock of the Company during the reporting period. Diluted net loss per share is computed by dividing net loss by the sum of the weighted average number of common shares and the number of potential dilutive common share equivalents outstanding during the period. Potential dilutive common share equivalents consist of the incremental common shares issuable upon the exercise of vested share options and the incremental shares issuable upon conversion of the convertible notes. Potential dilutive common share equivalents consist of stock options, warrants, and convertible notes.

In computing diluted earnings per share, common share equivalents are not considered in periods in which a net loss is reported, as the inclusion of the common share equivalents would be anti-dilutive. Since the Company is in a net loss for all periods presented in these financial statements, there is no difference between the Company's basic and diluted net loss per share for the periods presented.

The anti-dilutive shares outstanding for years ending December 31, 2022 and 2021 were as follows:

	December 31,	
	2022	2021
Stock options	23,547,558	23,226,338
Warrants	3,187,649	4,395,949
RSUs	3,221,677	—
Total	29,956,884	27,622,287

Segment Information

Accounting Standards Codification ("**ASC**") 280, Segment Reporting, establishes disclosure requirements relating to operating segments in annual and interim financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly evaluated by the chief operating decision maker in deciding how to allocate resources to the segment and assess its performance. The Company operates in one business segment, namely as the Cannabis segment that cultivates, processes and distributes medical and adult-use cannabis products in a variety of formats, as well as related accessories. The Company's Chief Executive Officer is the Company's chief operating decision maker.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less.

The Company has no cash equivalents for the years presented.

Business combinations and goodwill

The Company accounts for business combinations using the acquisition method in accordance with ASC 805, Business Combinations, which requires recognition of assets acquired and liabilities assumed, including contingent assets and liabilities, at their respective fair values on the date of acquisition. Any excess of the purchase consideration over the net fair value of tangible and identified intangible assets acquired less liabilities assumed is recorded as goodwill. The costs of business acquisitions, including fees for accounting, legal, professional consulting and valuation specialists, are expensed as incurred within acquisition-related (income) expenses, net. Purchase price allocations may be preliminary and, during the measurement period not to exceed one year from the date of acquisition, changes in assumptions and estimates that result in adjustments to the fair value of assets acquired and liabilities assumed are recorded in the period the adjustments are determined.

The estimated fair value of acquired assets and assumed liabilities are determined primarily using a discounted cash flow approach, with estimated cash flows discounted at a rate that the Company believes a market participant would determine to be commensurate with the inherent risks associated with the asset and related estimated cash flow streams.

Fair value measurements

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Inventory

Inventory is comprised of cannabis work-in-process, cannabis finished goods and other inventory. Work-in-process inventory includes cannabis plants, bulk harvested material, and various bulk oils and extracts. Finished goods include packaged flower and extracts. Other inventory includes product packaging, hemp derived CBD, apparel, and paraphernalia.

Inventory cost includes pre-harvest, post-harvest and shipment and fulfillment, as well as related accessories. Pre-harvest costs include labor and direct materials to grow cannabis, which includes water, electricity, nutrients, integrated pest management, growing supplies and allocated overhead. Post-harvest costs include costs associated with drying, trimming, blending, extraction, purification, quality testing and allocated overhead. Shipment and fulfillment costs include the costs of packaging, labelling, courier services and allocated overhead.

Inventory is stated at the lower of cost or net realizable value, determined using weighted average cost. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. At the end of each reporting period, the Company performs an assessment of inventory and record write-downs for excess and obsolete inventories based on the Company's estimated forecast of product demand, production requirements, market conditions, regulatory environment, and spoilage. Actual inventory losses may differ from management's estimates and such differences could be material to the Company's balance sheets, statements of net loss and comprehensive loss and statements of cash flows.

Property and equipment

Property and equipment are recorded at cost net of accumulated depreciation and impairment, if any. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful life of buildings and improvements ranges from five to thirty-nine, the estimated useful life of property and equipment, other than buildings, ranges from three to ten years. Land is not depreciated. Leasehold improvements, included in buildings and improvements, are depreciated over the lesser of the asset's estimated useful life or the remaining lease term. The estimated useful life of right of use assets relating to operating and finance leases ranges from one to sixty-four years.

When assets are retired or disposed of, the cost and accumulated depreciation are removed from the respective accounts and any related gain or loss is recognized. Maintenance and repairs are charged to expenses as incurred. Significant expenditures, which extend the useful lives of assets or increase productivity, are capitalized. When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items or components of property and equipment.

Construction-in-process includes construction progress payments, deposits, engineering costs, interest expense on long-term construction projects and other costs directly related to the construction of the facilities. Expenditures are capitalized during the construction period and construction in progress is transferred to the relevant class of property and equipment when the assets are available for use, at which point the depreciation of the asset commences.

The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Capitalization of interest

Interest incurred relating to the construction or expansion of facilities is capitalized to the construction in progress. The Company ceases the capitalization of interest when construction activities are substantially completed and the facility is available for commercial use.

Intangible assets

Intangible assets include intangible assets acquired as part of business combinations, asset acquisitions and other business transactions. The Company records intangible assets at cost, net of accumulated amortization and accumulated impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value on the acquisition date.

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

Licenses	15-20 years

When there is no foreseeable limit on the period of time over which an intangible asset is expected to contribute to the cash flows of the Company, an intangible asset is determined to have an indefinite life. Indefinite life intangible assets are not amortized but tested for impairment annually or more frequently when indicators of impairment exist. If the carrying value of an individual indefinite-lived intangible asset exceeds its fair value, such individual indefinite-life intangible asset is impaired by the amount of the excess.

The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of long-lived assets

The Company reviews long-lived assets, including property and equipment and definite life intangible assets, for impairment annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In order to determine if assets have been impaired, assets are grouped and tested at the lowest level for which identifiable independent cash flows are available ("**asset group**"). An impairment loss is recognized when the sum of projected undiscounted cash flows is less than the carrying value of the asset group. The measurement of the impairment loss to be recognized is based on the difference between the fair value and the carrying value of the asset group. Fair value can be determined using a market approach, income approach or cost approach. The reversal of impairment losses is prohibited.

Impairment of goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are tested for impairment annually, or more frequently when events or circumstances indicate that impairment may have occurred. As part of the impairment evaluation, the Company may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of the indefinite-lived intangible asset or the reporting unit (for goodwill) is less than its carrying value, a quantitative impairment test to compare the fair value to the carrying value is performed. An impairment charge is recorded if the carrying value exceeds the fair value.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("**ROU**") assets and right-of-use liabilities (current and non-current) in the balance sheets. Finance lease ROU assets are included in property and equipment, net and ROU liabilities (current and non-current) in the balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets are classified as a finance lease or an operating lease. A finance lease is a lease in which 1) ownership of the property transfers to the lessee by the end of the lease term; 2) the lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise; 3) the lease is for a major part of the remaining economic life of the underlying asset; 4) The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already included in the lease payments equals or exceeds substantially all of the fair value; or 5) the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. The Company classifies a lease as an operating lease when it does not meet any one of these criteria.

ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the incremental borrowing rate is used based on the information available at commencement date in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. The ROU assets also include any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

For finance leases, lease expenses are the sum of interest on the lease obligations and amortization of the ROU assets, resulting in a front-loaded expense pattern. ROU assets are amortized based on the lesser of the lease term and the useful life of the leased asset according to the property and equipment accounting policy. If ownership of the ROU assets transfers to the Company at the end of the lease term or if the Company is reasonably certain to exercise a purchase option, amortization is calculated using the estimated useful life of the leased asset, according to the property and equipment accounting policy. For operating leases, the lease expenses are generally recognized on a straight-line basis over the lease term and recorded to general and administrative expenses in the statements of net loss and comprehensive loss.

The Company has elected to apply the practical expedient, for each class of underlying asset, except real estate leases, to not separate non-lease components from the associated lease components of the lessee's contract and account for both components as a single lease component.

The Company has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less that do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. Short-term leases include real estate and vehicles and are not significant in comparison to the Company's overall lease portfolio. The Company continues to recognize the lease payments associated with these leases as expenses on a straight-line basis over the lease term.

Convertible notes

The Company accounts for its convertible notes with a cash conversion feature in accordance with ASC 470-20, Debt with Conversion and Other Options ("**ASC 470-20**"), which requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. The initial proceeds from the sale of convertible notes are allocated between a liability component and an equity component in a manner that reflects interest expense at the rate of similar nonconvertible debt that could have been issued at such time. The equity component represents the excess initial proceeds received over the fair value of the liability component of the notes as of the date of issuance. The resulting debt discount is amortized over the period during which the convertible notes are expected to be outstanding as additional non-cash interest expenses.

Upon repurchase of convertible debt instruments, ASC 470-20 requires the issuer to allocate total settlement consideration, inclusive of transaction costs, amongst the liability and equity components of the instrument based on the fair value of the liability component immediately prior to repurchase. The difference between the settlement consideration allocated to the liability component and the net carrying value of the liability component, including unamortized debt issuance costs, would be recognized as gain (loss) on extinguishment of debt in the statements of net loss and comprehensive loss. The remaining settlement consideration allocated to the equity component would be recognized as a reduction of additional paid-in capital in the balance sheets.

Revenue recognition

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

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

	Year Ended December 31,	
	2022	2021
Retail	$ 62,123,357	$ 44,692,385
Wholesale	12,502,510	9,753,783
Total	$ 74,625,867	$ 54,446,168

Revenue is recognized when control of the promised goods or services, through performance obligations by the Company, is transferred to the customer in an amount that reflects the consideration it expects to be entitled to in exchange for the performance obligations. More specifically, wholesale revenues are recognized upon delivery and acceptance by wholesale customers. Retail revenues are recognized at the point of sale. Discounts are recorded at the time of revenue recognition. Returns were not material during the years ended December 31, 2022 and 2021, but are recognized when the customer is refunded. Revenues are presented net of discounts and returns.

Sales taxes collected from customers are remitted to the appropriate taxing jurisdictions and are excluded from sales revenue as the Company considers itself a pass-through conduit for collecting and remitting sales taxes. Excise duties that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer are included in revenue. Freight revenues on all product sales, when applicable, are also recognized, on a consistent manner, at a point in time. The term between invoicing and when payment is due is not significant and the period between when the entity transfers the promised good or service to the customer and when the customer pays for that good or service is one year or less.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration from the customer. If a customer pays consideration before the Company transfers goods or services, a contract liability is recognized when the payment is made. Contract liabilities are recognized as revenue when the Company performs under the contract.

The Company considers whether there are other promises in the contracts that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Company considers the effects of variable consideration and the existence of significant financing components (if any).

(i) Variable consideration

Some contracts for the sale of goods may provide customers with a right of return, volume discount, bonuses for volume/quality achievement, or sales allowance. In addition, the Company may provide in certain circumstances, a retrospective price reduction to a customer based primarily on inventory movement. These items give rise to variable consideration. The Company uses the expected value method to estimate the variable consideration because this method best predicts the amount of variable consideration to which the Company will be entitled. The Company uses historical evidence, current information and forecasts to estimate the variable consideration. The requirements in ASC 606 on constraining estimates of variable consideration are applied to determine the amount of variable consideration that can be included in the transaction price. The Company reduces revenue and recognizes a contract liability equal to the amount expected to be refunded to the customer in the form of a future rebate or credit for a retrospective price reduction, representing its obligation to return the customer's consideration. The estimate is updated at each reporting period.

(ii) Significant financing component

The Company may receive short-term advances from its customers. Using the practical expedient in ASC 606, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good to a customer and when the customer pays for that good or service will be one year or less. The Company has not, nor expects to receive long-term advances from customers.

(iii) *Contract balance*

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration.

Accounts receivable

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration).

Cost of sales

Cost of sales represents costs directly related to manufacturing and distribution of the Company's products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling and the depreciation of manufacturing equipment and production facilities. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance and property taxes. Cost of sales also includes inventory valuation adjustments. The Company recognizes the cost of sales as the associated revenues are recognized.

Stock-based compensation

The Company measures and recognizes compensation expense for stock options and restricted stock units (RSUs) to employees and non-employees on a straight-line basis over the vesting period based on their grant date fair values. Prior to the adoption of ASU 2018-07 on January 1, 2019, the fair value of stock options to non-employees were re-measured at each reporting date until one of either of the counterparty's commitment to perform is established or until the performance is complete. The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option pricing model. Determining the estimated fair value of at the grant date requires judgment in determining the appropriate valuation model and assumptions, including the fair value of subordinated voting shares on the grant date, risk-free rate, volatility rate, annual dividend yield and the expected term. The volatility rate is based on historical volatilities of public companies operating in a similar industry to the Company, as well as the Company's historical volatility. The Company estimates the fair value of RSUs to be the closing market price of the Company's stock on the business day immediately preceding the grant date.

For stock options granted, the fair value of common stock at the date of grant was determined by the Board of Directors with assistance from management. The Company does not estimate forfeiture rates when calculating compensation expense for stock options or RSUs. The Company records forfeitures as they occur.

Fully vested, non-forfeitable equity instruments issued to parties other than employees are measured on the date they are issued where there is no specific performance required by the grantee to retain those equity instruments. Stock-based payment transactions with non-employees are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Where fully vested, non-forfeitable equity instruments are granted to parties other than employees in exchange for notes or financing receivable, the note or receivable is presented in additional paid-in capital on the balance sheets.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Management assesses the likelihood that the resulting deferred tax assets will be realized. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes uncertain income tax positions at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Changes in recognition or measurement are reflected in the period in which judgment occurs.

New accounting pronouncements not yet adopted

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

3. Business Combinations and Dispositions

Dispositions

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 year ended December 31, 2022.

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

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

Asset Acquisitions

Acquisition of MJ Distributing C201, LLC and MJ Distributing P132, LLC

On April 10, 2019, the Company entered into a definitive agreement to acquire 100% of the membership interests in MJ Distributing C201, LLC and MJ Distributing P132, LLC ("**MJ Distributing**") which currently hold licenses to cultivate and distribute, respectively, medical and adult-use cannabis in the state of Nevada. The purpose of this acquisition was to acquire a medical marijuana license in the state of Nevada. The acquisition was financed with cash on hand and stock.

The acquisition of MJ Distributing was completed on January 5, 2021. As part of the closing of the acquisition the restricted cash of $1,592,500 was transferred to the sellers, the convertible notes in escrow were cancelled, and the Company issued 1,050,000 subordinate voting shares to the sellers. Management determined the total consideration paid of $1,592,500 in restricted cash, $1,385,239 associated with the fair value of the subordinate voting shares issued, and

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

Acquisition of the Assets of Charm City Medicus, LLC

On July 8, 2021, the Company's subsidiary, Vireo of Charm City, LLC, signed a definitive agreement to purchase substantially all the assets of Charm City Medicus, LLC, a medical cannabis dispensary located in Baltimore, Maryland, and closed the transaction on November 19, 2021. Consideration paid totaled $7,219,713 consisting of 1,459,803 subordinate voting shares with a fair value of $1,367,590, a $2,000,000 note payable bearing an interest rate of 8%, cash of $3,491,865, an unpaid cash consideration of $308,294, and transaction costs of $51,964. Consideration paid exceeded net assets acquired of $35,131. The excess consideration paid of $7,184,583 was equal to the fair value of the intangible asset acquired. The related operating results are included in the accompanying consolidated statements of operations, changes in shareholders' equity, and statement of cash flows commencing from the date of acquisition.

Assets Held for Sale

As of December 31, 2022 the Company identified property, equipment, and lease assets and liabilities associated with the businesses in Maryland, Nevada, Massachusetts, and Puerto Rico with carrying amounts that are expected to be recovered principally through sale or disposal 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 months. 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 $8,596,201 for the year ended December 31, 2022. Assets and liabilities held for sale are as follows:

Assets held for sale		
Property and equipment	$	2,217,143
Intangible assets		662,501
Operating lease, right-of-use asset		1,268,145
Deposits		92,992
Total assets held for sale	$	4,240,781
Liabilities held for sale		
Right of Use Liability	$	1,319,847
Total liabilities held for sale	$	1,319,847

4. Fair Value Measurements

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

The following tables present information about the Company's assets that are measured at fair value on a recurring basis as of December 31, 2022 and 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
December 31, 2022				
Cash	$ 15,149,333	$ —	$ —	$ 15,149,333
Total assets	$ 15,149,333	$ —	$ —	$ 15,149,333
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 year ended December 31, 2022, the carrying values of property and equipment and intangible assets and were concluded to exceed their fair values. As a result, the Company recorded impairment charges that incorporates fair value measurements. The Company used Level 2 fair value inputs when a buyer quote was received, or similar assets had been sold recently in the market. To the extent a market for the asset didn't exist, or was illiquid, the Company used Level 3 fair value inputs (refer to Notes 9 & 12).

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

Accounts receivables are comprised of the following items:

	December 31, 2022	December 31, 2021
Trade receivable	$ 1,421,027	$ 1,251,699
Tax withholding receivable	2,755,396	3,208,270
Other	109,649	42,500
Total	$ 4,286,072	$ 4,502,469

Included in the trade receivables, net balance at December 31, 2022, and 2021, is an allowance for doubtful accounts of $169,699 and $215,606, respectively. Included in the tax withholding receivable, net balance at December 31, 2022 and 2021, is an allowance for doubtful accounts of $284,161and $356,474 respectively.

6. Notes Receivable

As of December 31, 2022, and 2021, the Company had a total of $3,750,000 in notes receivable. The balance is comprised of a $3,750,000 four-year note with an 8% coupon rate payable quarterly obtained as part of a 2020 disposition.

7. Inventory

Inventory is comprised of the following items:

	December 31, 2022	December 31, 2021
Work-in-progress	$ 14,209,695	$ 15,167,522
Finished goods	5,506,760	4,580,158
Other	791,568	674,381
Total	$ 20,508,023	$ 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:

	December 31,	
	2022	2021
Work-in-progress	$ 4,003,943	$ 1,949,811
Finished goods	254,467	691,269
Other	35,378	—
Total	$ 4,293,788	$ 2,641,080

During the years ended December 31, 2022 and 2021, the Company recorded write downs to net realizable value in its Maryland and Arizona subsidiaries. Based on the market sales price relative to the cost to produce certain inventories, these costs could not be recovered, and as a consequence net realizable value was less than carrying value of inventory. Additionally, the Company recorded inventory reserves related to expected future spoilage of inventory. Accordingly, inventory valuation adjustments amounting to $4,293,788 and $2,641,080 were recorded in 2022 and 2021 respectively.

8. Prepayments and other current assets

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

	December 31, 2022	December 31, 2021
Prepaid Insurance	$ 1,894,385	$ 838,612
Other Prepaid Expenses	650,147	721,501
Total	$ 2,544,532	$ 1,560,113

9. Property and Equipment, Net

Property and equipment, net consisted of the following:

	December 31, 2022	December 31, 2021
Land	$ 863,105	$ 1,366,650
Buildings and leasehold improvements	17,567,628	15,529,928
Furniture and equipment	9,709,714	7,962,363
Software	221,540	221,540
Vehicles	646,257	513,135
Construction-in-progress	794,958	10,510,166
Right of use asset under finance lease	69,892,379	71,078,655
	99,695,581	107,182,437
Less: accumulated depreciation	(10,088,649)	(7,693,878)
Total	$ 89,606,932	$ 99,488,559

For the years ended December 31, 2022 and 2021, total depreciation on property and equipment was $3,335,895 and $3,029,324, respectively. For the year ended December 31, 2022 and 2021, accumulated amortization of the right of use asset amounted to $3,392,377 and $2,513,223, respectively. For the years ended December 31, 2022 and 2021, the right of use asset under finance lease of $69,892,379 and $71,078,655, respectively, consists of leased processing and cultivation premises, and leased equipment. During the years ended December 31, 2022 and 2021, total interest expense capitalized to property plant and equipment was $573,717 and $521,737, respectively. The Company capitalized into inventory $2,682,818 and $2,404,711 relating to depreciation associated with manufacturing equipment and production facilities as of December 31, 2022 and 2021, respectively. The capitalized depreciation costs associated are added to inventory and expensed through Cost of Sales Product Cost on the consolidated statements of net loss.

As of December 31, 2022, in conjunction with the Company's held for sale assessment and disposal of certain long-term assets, the Company evaluated whether property and equipment showed any indicators of impairment, and it was determined that the recoverable amount of certain net assets was below book value. As a result, the Company recorded an impairment charge of $8,596,201 (2021 - $3,064,468) on property and equipment, net. Cash proceeds received during the year ended December 31, 2022, for disposed assets was $395,458.

10. Leases

Components of lease expenses are listed below:

	December 31, 2022	December 31, 2021
Finance lease cost		
Amortization of ROU assets	$ 1,095,337	$ 947,177
Interest on lease liabilities	10,637,686	5,206,540
Operating lease costs	2,556,772	2,581,665
Total lease costs	$ 14,289,795	$ 8,735,382

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

	Operating Leases December, 2022	Finance Leases December, 2022	Total
2023	$ 2,534,207	$ 10,346,743	$ 12,880,950
2024	2,243,050	10,448,698	12,691,748
2025	2,030,129	10,531,127	12,561,256
2026	1,609,276	10,844,372	12,453,648
2027	1,384,646	11,167,059	12,551,705
Thereafter	1,271,640	174,401,638	175,673,278
Total minimum lease payments	$ 11,072,948	$ 227,739,637	$ 238,812,585
Less discount to net present value	(3,447,503)	(152,606,947)	(156,054,450)
Less liabilities held for sale	(1,319,847)	—	(1,319,847)
Present value of lease liability	$ 6,305,598	$ 75,132,690	$ 81,438,288

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

On October 1, 2022, the Company terminated the existing lease agreements for the cultivation and processing facilities in Arizona. The right of use liability exceeded the right of use asset at the time of termination resulting in a gain on disposal of $184,641. This gain is included in other income on the consolidated statement of net loss and comprehensive loss for the year ended December 31, 2022.

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

Supplemental cash flow information related to leases

	December 31, 2022	December 31, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Lease principal payments	$ 2,086,444	$ 1,579,700
Non-cash additions to ROU assets	189,962	60,423,915
Amortization of operating leases	1,321,530	1,243,245

Other information about lease amounts recognized in the financial statements

	December 31, 2022	December 31, 2021
Weighted-average remaining lease term (years) – operating leases	4.85	5.53
Weighted-average remaining lease term (years) – finance leases	18.00	19.46
Weighted-average discount rate – operating leases	15.00 %	15.00 %
Weighted-average discount rate – finance leases	15.26 %	15.31 %

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

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

12. Intangibles

Intangible assets are comprised of the following items:

	Licenses	Royalty Asset	Total
Balance December 31, 2020	$ 8,341,143	$ 68,276	$ 8,409,419
Additions	10,190,458	—	10,190,458
Divestitures *(Note 3)*	(5,492,890)	—	(5,492,890)
Amortization	(817,215)	—	(817,215)
Impairment	(2,105,483)		(2,105,483)
Balance, December 31, 2021	$ 10,116,013	$ 68,276	$ 10,184,289
Divestitures *(Note 3)*	—	(68,276)	(68,276)
Transfer to held for sale *(Note 3)*	(662,501)	—	(662,501)
Amortization	(676,566)	—	(676,566)
Balance, December 31, 2022	$ 8,776,946	$ —	$ 8,776,946

Amortization expense for intangibles was $676,566 and $817,215 during the years ending December 31, 2022 and 2021, respectively and is recorded in operating expenses on the Consolidated Statements of Net Loss and Comprehensive Loss. As of December 31, 2022, the Company evaluated whether intangible assets showed any indicators of impairment, and it was determined that none exist. As such, no impairment of intangible assets was recorded for the year ended December 31, 2022.

The Company estimates that amortization expense will be $639,065 per year, for the next five years.

13. Accounts Payable and Accrued Liabilities

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

	December 31, 2022	December 31, 2021
Accounts payable – trade	$ 1,905,008	$ 1,490,286
Accrued Expenses	6,172,924	7,708,883
Taxes payable	6,166,145	5,196,677
Contract liability	684,703	409,627
Total accounts payable and accrued liabilities	$ 14,928,780	$ 14,805,473

14. 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) the U.S. prime rate plus 10.375%, 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 reimbursed Goodness Growth for all interest expenses related to the Third Amendment in excess of 10% per annum through the purported termination of the Arrangement Agreement on October 13, 2022.

During the year ended December 31, 2022, the Company drew $28,000,000 in principal debt from the Delayed Draw Loans. Proceeds received, net of deferred financing fees of $2,236,919 were $25,763,081. The Company was reimbursed by Verano for $1,190,863 of these deferred financing fees pursuant to the Arrangement Agreement. These fees are included as other income in the statement of loss and comprehensive loss for the year ended December 31, 2022.

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:

	December 31, 2022	December 31, 2021
Beginning of year	$ 27,329,907	$ 1,110,000
Proceeds	28,000,000	30,200,000
Note payable issued in Charm City acquisition	—	2,000,000
Deferred financing costs	(2,236,919)	(8,607,786)
PIK interest	1,300,245	564,151
Amortization of deferred financing costs	3,635,371	2,123,542
Principal payments	—	(60,000)
End of period	58,028,604	27,329,907
Less: Current portion	11,780,000	—
Total long-term debt	$ 46,248,604	$ 27,329,907

As of December 31, 2022, stated maturities of long-term debt were as follows:

2023	$ 11,780,000
2024	46,248,604
Thereafter	—
Total	$ 58,028,604

15. Stockholders' Equity

Shares

The Company's certificate of incorporation authorized the Company to issue the following classes of shares with the following par value and voting rights as of December 31, 2021. Thef liquidation and dividend rights are identical among Shares equally in our earnings and losses on an as converted basis.

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

Subordinate Voting Shares

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

Multiple Voting Shares

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

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

Super Voting Shares

Holders of Super Voting Shares will be entitled to ten votes in respect of each Subordinate Voting Share into which such Super Voting Share could ultimately then be converted, which for greater certainty, shall initially equal one thousand votes per Super Voting Share. Each Super Voting share shall be convertible into one hundred Subordinate Voting Share

Shares Issued

During the year ended December 31, 2022, 54,078 Multiple Voting Shares were converted into 5,407,800 Subordinate Voting Shares.

During the year ended December 31, 2022, employee stock options were exercised for 15,002 Subordinate Voting Shares. Proceeds from these transactions were $7,201.

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

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

On June 4, 2021, the Company issued 295,774 shares with a fair value of $604,876 to a third party for ongoing corporate advisory services. The fair value of the issued shares was recorded to stock-based compensation expense in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2021.

On March 31, 2021, as part of a settlement and release of claims regarding a dispute over certain post-termination terms under his employment agreement, the Company issued 7,110,481 subordinate voting shares to its former Executive Chairman, Bruce Linton, upon a cashless exercise of 10 million warrants that had an exercise price of $1.02 per share and issued him 889,519 subordinate voting shares with a fair value of $1,441,183 pursuant to an exemption from registration under the Securities Act. The fair value of the 889,519 subordinate voting shares issued of $1,441,183 was recorded as stock-based compensation expense in the consolidated statement of net loss and comprehensive loss for the year ended December 31, 2021. The Company did not receive any proceeds in connection with the warrant exercise or issuance of shares. The shares issued pursuant to the warrant exercise are free of trading restrictions; the additional 889,519 shares are subject to a holding period expiring on August 1, 2021. He was previously issued 15,000,000 warrants under his employment agreement and as part of the settlement, he surrendered all right, title, and interest in the remaining 5,000,000 warrants for cancellation.

16. 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 (“RSUs”), or other awards. Under the terms of the plan, a total of ten percent of the number of shares outstanding assuming conversion of all super voting and multiple voting shares to subordinate voting shares are permitted to be issued. The exercise price for incentive stock options issued under the plan will be set by the committee but will not be less 100% of the fair market value of the Company’s shares on the date of grant. Incentive stock options have a maximum term of 10 years from the date of grant. The incentive stock options vest at the discretion of the Board.

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

	December 31, 2022	December 31, 2021
Risk-Free Interest Rate	3.04 %	1.25 %
Weighted Average Exercise Price	$ 0.90	$ 2.32
Expected Life of Options (years)	5.15	7.00
Expected Annualized Volatility	81.50 %	100.00 %
Expected Forfeiture Rate	N/A	N/A
Expected Dividend Yield	N/A	N/A

Stock option activity for the Company for the years ended December 31, 2022 and 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	(7,504,677)	0.59	—
Exercised	(15,002)	0.48	—
Granted	7,840,899	0.90	—
Options Outstanding at December 31, 2022	23,547,558	$ 0.66	7.30
Options Exercisable at December 31, 2022	14,459,948	$ 0.47	6.10

During the years ended December 31, 2022 and 2021, the Company recognized $2,151,972 and $2,945,557 in share-based compensation relating to stock options, respectively. As of December 31, 2022, the total unrecognized compensation costs related to unvested stock options awards granted was $1,878,423. In addition, the weighted average period over which the unrecognized compensation expense is expected to be recognized is approximately 1.5 years. The total intrinsic value of stock options outstanding and exercisable as of December 31, 2022, was $0 .

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	**December 31, 2022**	**December 31, 2021**
Risk-Free Interest Rate	3.99 %	N/A
Expected Life (years)	2.00	N/A
Expected Annualized Volatility	100 %	N/A
Expected Forfeiture Rate	N/A	N/A
Expected Dividend Yield	N/A	N/A

SVS Warrants Denominated in C$	**December 31, 2022**	**December 31, 2021**
Risk-Free Interest Rate	N/A	1.27 %
Expected Life of Options (years)	N/A	4.23
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	—	$ —	—
Granted	150,000	1.49	2.00
Warrants outstanding at December 31, 2022	150,000	$ 1.49	2.00
Warrants exercisable at December 31, 2022	150,000	$ 1.49	2.00

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 December 31, 2022	3,037,649	$ 3.50	3.23
Warrants exercisable at December 31, 2022	3,037,649	$ 3.50	3.23

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
Expired	(13,583)	194.66	—
Warrants outstanding at December 31, 2022	—	$ —	—
Warrants exercisable at December 31, 2022	—	$ —	—

During the years ended December 31, 2022 and 2021, $0 in share-based compensation was recorded in connection with the MVS warrants.

As of December 31, 2021, there were 150,000 SVS compensation warrants earned in connection with ongoing corporate advisory and financing services rendered, but not yet issued. The Company recorded $191,026 in share-based compensation expense and accounts payable and accrued liabilities in connection with these warrants as of December 31, 2021. These warrants were granted during the year ended December 31, 2022 and marked to their fair value of $2,034 on the date of grant. The difference between the fair value of these warrants at December 31, 2021 and the grant date of $188,992 was recorded as contra-stock based compensation expense in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2022.

RSUs

The expense associated with RSUs is based on closing price of the Company’s Subordinate Voting Shares 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 year ended December 31, 2022 the Company recognized $731,217 in stock-based compensation expense related to RSUs.

A summary of RSUs is as follows:

	Number of Shares	Weighted Avg. Fair Value
Balance, December 31, 2021	—	$ —
Granted on March 15, 2022	1,094,200	1.81
Granted on December 15, 2022	2,127,477	0.29
Balance, December 31, 2022	3,221,677	$ 0.81

17. Commitments and Contingencies

Legal proceedings

Schneyer

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 2018. It is owned and controlled by Kyle E. Kingsley and Amber H. Shimpa, executive officers and directors of Vireo U.S. and the Company.

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.

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.

Verano

On January 31, 2022, the Company entered into the Arrangement Agreement with Verano, pursuant to which Verano was to acquire all of the issued and outstanding shares of Goodness Growth pursuant to a Plan of Arrangement. Subject to the terms and conditions set forth in the Arrangement Agreement and the Plan of Arrangement, holders of Goodness Growth Shares would receive 0.22652 of a Verano Subordinate Voting Share, subject to adjustment as described below, 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.

On October 13, 2022, Goodness Growth received a notice of purported termination of the Arrangement Agreement (the "**Notice**") from Verano. The Notice asserted certain breaches of the Arrangement Agreement, including claims the Company's public filings and communications with respect to its business and ongoing operations were misleading and that the Company breached its representations to Verano under the Arrangement Agreement. Verano also claimed, as a result of such breaches, it is entitled to payment of the $14,875,000 termination fee and its transaction expenses. Goodness Growth denies all of Verano's allegations and affirmatively asserts that it has complied with its obligations under the Arrangement Agreement, and with its disclosure obligations under US and Canadian law, in all material respects at all times. The Company believes that Verano has no factual or legal basis to justify or support its purported grounds for termination of the Arrangement Agreement.

On October 21, 2022, Goodness Growth commenced an action in the Supreme Court of British Columbia against Verano after Verano wrongfully repudiated the Arrangement Agreement. The Company is seeking damages, costs and interest, based on Verano's breach of contract and of its duty of good faith and honest performance. On November 14, 2022, Verano filed counterclaims against the Company for the termination fee and transaction expenses described above. Due to uncertainties inherent in litigation, it is not possible for Goodness Growth to predict the timing or final outcome of the legal proceedings against Verano or to determine the amount of damages, if any, that may be awarded.

Lease commitments

The Company leases various facilities, under non-cancelable finance and operating leases, which expire at various dates through September 2041.

18. General and Administrative Expenses

General and administrative expenses are comprised of the following items:

	Year Ended December 31,	
	2022	2021
Salaries and benefits	$ 16,987,788	$ 16,220,876
Professional fees	5,589,074	3,751,899
Insurance expenses	2,776,728	2,777,027
Marketing	1,066,946	2,525,096
Other expenses	7,403,150	8,380,882
Total	$ 33,823,686	$ 33,655,780

19. Income Taxes

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

	Years Ended December 31,	
	2022	2021
United States	$ (36,564,444)	$ (29,568,475)
Total	$ (36,564,444)	$ (29,568,475)

The (recoveries) expenses for income taxes consists of:

	Year ended December 31,	
	2022	2021
Current:		
Federal	$ 5,950,000	$ 4,484,000
State	135,000	976,000
Total	6,085,000	5,460,000
Deferred:		
Federal	(2,171,000)	152,000
State	1,979,000	(1,490,000)
Total	(192,000)	(1,338,000)
Total	$ 5,893,000	$ 4,122,000

	Year ended December 31,	
	2022	2021
Loss before income taxes:	$ (36,564,444)	$ (29,568,475)
Income tax benefits at statutory rate	(7,678,533)	(6,209,380)
State Taxes	1,423,205	(2,400,960)
Non-deductible expenses	10,231,020	—
Stock based and other compensation	565,781	—
Change in valuation allowance	5,103,000	12,732,340
Other	(3,751,473)	—
Income tax expense, net	$ 5,893,000	$ 4,122,000

The following table summarizes the components of deferred tax:

	2022	2021
Deferred assets		
Operating loss carryforwards - United States	$ 3,806,000	$ 1,892,000
Allowance for doubtful accounts	137,000	165,000
Inventory reserve	312,000	628,000
Financing leases	1,845,000	553,000
Intangible assets	483,000	238,000
Property and equipment	3,158,000	578,000
Capital loss carryforward	310,000	627,000
Share based compensation	58,000	26,000
Total Deferred tax assets	10,109,000	4,707,000
Less valuation allowance	(6,638,000)	(1,535,000)
Net deferred tax assets	3,471,000	3,172,000
Deferred tax liabilities		
Related party management fee receivables	654,000	594,000
Note Receivable	1,130,000	1,083,000
Total deferred tax liabilities	1,784,000	1,677,000
Net deferred asset/(tax liabilities)	$ 1,687,000	$ 1,495,000

At December 31, 2022, the Company had United States federal net operating loss carryforwards of approximately $740,000 that can be carried forward indefinitely and are limited in annual use to 80% of current year taxable income, and state net operating loss carryforwards of approximately $39,835,000 that can be carried forward fifteen years. State net operating loss carryforwards begin to expire on December 31, 2034.

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

The Company recognizes interest and, if applicable, penalties (not included in the “unrecognized tax benefits” table above) for any uncertain tax positions. Interest and penalties are recorded as a component of income tax expenses. As of both December 31, 2022 and 2021, the Company had a cumulative balance of accrued interest and penalties on unrecognized tax positions of $0.

The Company’s federal and state income tax returns are subject to examination by income taxing authorities, generally for three years after the returns are filed. The Company is not currently under examination in any jurisdiction for any period. The Company believes it is no longer subject to income tax examinations for fiscal periods ended prior to 2019.

20. Supplemental Cash Flow Information[1]

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash paid for interest	$ 16,560,487	$ 6,861,212
Cash paid for income taxes	5,132,280	5,885,899
Change in construction accrued expenses	94,556	(1,787,111)
Non-cash investing		
Acquisition of Nevada through issuance of SVS	—	1,385,239
Acquisition of Nevada through restricted cash and deferred acquisition costs	—	1,620,636
Acquisition of Charm City through issuance of SVS	—	1,367,590
Acquisition of Charm City through issuance of note payable	—	2,000,000

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

21. Financial Instruments

Credit risk

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

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of December 31, 2021, the Company's financial liabilities consist of accounts payable and accrued liabilities, debt. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. Historically, the Company's main source of funding has been additional funding from investors and debt issuances. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity financing.

Legal Risk

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Company is not exposed to significant currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company currently carries variable interest-bearing debt subject to fluctuations in the United States Prime rate. A change of 100 basis points in interest rates during the year ended December 31, 2022, would have resulted in a corresponding change in the statement of loss and comprehensive loss of $265,993.

22. Related Parties Transactions

As of December 31, 2022, and 2021, there were $1,613 and $98,750, respectively, due to related parties.

For the years ended December 31, 2022, and 2021, the Company paid a related party (Bengal Impact Partners, of which a member of the Board of Directors is a managing partner) $120,000 and $30,000, respectively, for ongoing corporate advisory services.

The Company granted 150,000 compensation warrants to Bengal Impact Partners for ongoing corporate advisory services (Note 16).

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

23. Subsequent Events

In January of 2023 the Company granted 7,461,109 stock options to employees with a weighted average exercise price of $0.16.

On February 24, 2023, the Company signed the fourth amendment to the existing lease agreements for the cultivation and processing facilities in New York. The amendment provides for additional tenant improvements of $4,000,000 and increases base rent by $50,000 a month.

On March 31, 2023, the Company executed a fifth amendment to its credit facility with its senior secured lender, Chicago Atlantic Admin, LLC (the "Agent"), an affiliate of Green Ivy Capital, and a group of lenders. The amended credit facility extends the maturity date on its Delayed Draw Loans to April 30, 2024, through the issuance of 13,017,624 Subordinate Voting Shares in lieu of a cash extension fee. An additional 1,982,376 Subordinate Voting Shares are issuable at the discretion of the Agent. It also provides the Company with reduced cash outlays by eliminating required amortization of the loan, and requires the Company to divest certain assets to improve its liquidity position and financial performance. The Company has the potential to extend the maturity date on its Delayed Draw Loans up to January 31, 2026 with the satisfaction of certain financial performance-related conditions, and the commitment to enter into a $10,000,000 convertible note by April 30, 2023.

As conditions of the financing activities described above, the Company also agreed to make certain corporate governance changes. Chelsea Grayson and Amber Shimpa agreed to resign from the Company's Board of Directors, effective immediately. The resignations of Ms. Grayson and Ms. Shimpa resulted in a reduction in the number of current members of the Company's Board to five. Furthermore, Executive Chairman Dr. Kyle Kingsley has agreed to convert his 65,411 Super Voting Shares of Goodness Growth into 6,541,100 Subordinate Voting Shares of Goodness Growth. Following the conversions, there will be no Goodness Growth Super Voting Shares issued and outstanding, which will have the effect of retiring the enhanced voting rights of the Company's class of Super Voting Shares.