

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

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

This management's discussion and analysis is dated April 1, 2024.

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

Overview of the Company

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. The Company is evolving with the industry and is in the midst of a transformation to being significantly more customer-centric across its operations, which include cultivation, manufacturing, wholesale and retail business lines. With our core operations strategically located in three limited-license markets through our state-licensed subsidiaries, we cultivate and manufacture cannabis products and distribute these products through our growing network of Green Goods[®] and other retail dispensaries we own or operate as well as to third-party dispensaries in the markets in which our subsidiaries hold operating licenses.

Verano Litigation

On January 31, 2022, we 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 was to receive 0.22652 of a subordinate voting share of Verano (each a "**Verano Subordinate Voting Share**"), subject to adjustment as described below, for each Subordinate Voting

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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, we 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 our public filings and communications with respect to our business and ongoing operations were misleading and that we breached our 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 of up to \$3,000,000. We deny all of Verano’s allegations and believe we have complied with our obligations under the Arrangement Agreement in all material respects at all times. We believe Verano has no factual or legal basis to justify or support its purported grounds for termination of the Arrangement Agreement.

On October 21, 2022, we commenced an action in the Supreme Court of British Columbia against Verano seeking damages after Verano wrongfully terminated the Arrangement Agreement. We are 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.

On July 31, 2023, the Company filed a requisition for adjournment of its application filed July 14, 2023, and set for hearing on July 31, 2023 to compel Verano’s compliance with document production.

Throughout 2023, the Company served 4 lists of documents, reviewed document production from Verano, and prepared for examinations for discovery. The Company also prepared materials in anticipation of seeking summary determination of its claim.

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.

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.

Operating Segments

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

During the year ended December 31, 2023, the Company had operating revenue in four states: Maryland, Minnesota, New Mexico, and New York. In June 2023, we sold our business operations in New Mexico. Retail revenues during the year ended December 31, 2023 were derived from sales in eighteen dispensaries throughout four states. We had eight operational dispensaries in Minnesota, four in New Mexico (until June 2023), four in New York, and two in Maryland. Wholesale revenues were derived from sales of products to third parties in the states of Maryland, Minnesota, and New York.

Year ended December 31, 2023 Compared to the Year Ended December 31, 2022

Revenue

We derived our revenue from cultivating, processing, and distributing cannabis products through our eighteen dispensaries in four states and our wholesale sales to third parties in four states. For the year ended December 31, 2023, 84% of the revenue was generated from retail dispensaries and 16% from wholesale business. For the year ended December 31, 2022, 83% of the revenue was generated from retail dispensaries and 17% from wholesale business. During the year ended December 31, 2023, we ceased all operations in New Mexico. During the year ended December 31, 2022, we ceased all operations in Arizona.

For the year ended December 31, 2023, Minnesota operations contributed approximately 51% of revenues, New York contributed 16%, Maryland contributed 31%, and New Mexico contributed 2%. For the year ended December 31, 2022, Minnesota operations contributed approximately 51% of revenues, New York contributed 20%, Arizona contributed 3%, New Mexico contributed 8%, and Maryland contributed 18%.

Revenue for the year ended December 31, 2023, was \$88,133,163, an increase of \$13,507,296 or 18% compared to revenue of \$74,625,867 for year ended December 31, 2022. The increase is primarily attributable to increased revenue contributions from the Maryland business driven by the commencement of adult-use sales on July 1, 2023, and increased in revenue contributions from Minnesota driven by increased patient count, partially offset by decreased New Mexico revenues, which was divested in June of 2023.

Retail revenue for the year ended December 31, 2023, was \$73,620,867, an increase of \$11,497,510 or 19% compared to retail revenue of \$62,123,357 for the year ended December 31, 2022, primarily due to increased revenue contributions from the Maryland business driven by the commencement of adult-use sales on July 1, 2023, and increased in revenue contributions from Minnesota driven by increased patient count, partially offset by decreased New Mexico revenues, which was divested in June of 2023.

Wholesale revenue for the year ended December 31, 2023, was \$14,512,297, an increase of \$2,009,787 or 16% compared to wholesale revenue of \$12,502,510 for year ended December 31, 2022. The increase was primarily due to increased revenue contributions from the Maryland business driven by the commencement of adult-use sales on July 1, 2023.

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	Year Ended December 31,		\$ Change	% Change
	2023	2022		
Retail:				
MN	\$ 45,171,621	\$ 37,461,646	\$ 7,709,975	21 %
NY	8,915,421	10,676,424	(1,761,003)	(16)%
NM	1,964,285	6,040,847	(4,076,562)	(67)%
MD	17,569,539	7,944,440	9,625,099	121 %
Total Retail	\$ 73,620,866	\$ 62,123,357	\$ 11,497,509	19 %
Wholesale:				
AZ	\$ —	\$ 2,361,233	\$ (2,361,233)	(100)%
MD	9,400,733	5,474,824	3,925,909	72 %
NY	5,046,537	3,994,313	1,052,224	26 %
MN	25,300	672,140	(646,840)	(96)%
NM	39,727	—	39,727	100 %
Total Wholesale	\$ 14,512,297	\$ 12,502,510	\$ 2,009,787	16 %
Total Revenue	\$ 88,133,163	\$ 74,625,867	\$ 13,507,296	18 %
NM and AZ	\$ (2,004,012)	\$ (8,402,080)	\$ 6,398,068	(76)%
Total Revenue excluding NM and AZ	\$ 86,129,151	\$ 66,223,787	\$ 19,905,364	30 %

Cost of Goods Sold and Gross Profit

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

Cost of goods sold for the year ended December 31, 2023, was \$44,028,998, an increase of \$311,292 compared to the year ended December 31, 2022 of \$43,717,706, driven most significantly by the product costs associated with the increase in revenues year over year.

Gross profit for the year ended December 31, 2023, was \$44,104,165, representing a gross margin of 50%. This is compared to gross profit for the year ended December 31, 2022, of \$30,908,161 or a 41% gross margin. The increase in margin was driven by increased retail revenue contributions from Minnesota, which carries a high margin profile, both overall and as a percentage of total revenue, the disposition of all Arizona wholesale operations, which carried a low margin in 2022, and the commencement of adult-use sales in Maryland on July 1, 2023.

Total Operating Expenses

Total operating expenses for the year ended December 31, 2023, were \$33,524,387, a decrease of \$4,323,139 compared to total expenses of \$37,847,526 for the year ended December 31, 2022. The decrease in total expenses was attributable to a decrease in selling, general, and administrative expenses of \$5,605,706 partially offset by an increase in share based compensation expenses of \$1,463,401. Decreased salaries and wages driven by lower headcount and decreased professional fees account for the majority of the decrease in selling, general, and administrative expenses.

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

Operating income (loss) before other income (expense) and provision for income taxes for the year ended December 31, 2023, was \$10,579,778, an increase of \$17,519,143 compared to an operating loss before other income (expense) and provision for income taxes of \$(6,939,365) for the year ended December 31, 2022.

Total Other Income (Expense)

Total other expense for the year ended December 31, 2023, was (\$28,403,867), a decrease of \$1,221,212 compared to other expense of (\$29,625,079) or the year ended December 31, 2022. The decrease in other expense is primarily attributable to increased other income attributable to the receipt of the Coronavirus Aid, Relief, and Economic Security Act Employee Retention Tax Credit in 2023 and decreased impairment losses in 2023, partially offset by increased interest expense driven by the Credit Facility and increased losses on disposal of assets related to the Red Barn Growers disposition in connection with the divestiture of our business in New Mexico during 2023.

Provision for Income Taxes

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the year ended December 31, 2023, Federal and State income tax expense totaled \$7,723,000 compared to tax expense of \$5,893,000 for the year ended December 31, 2022. The increase in tax expense is primarily attributable to the increase in gross profit relative to the prior year.

Year ended December 31, 2022 Compared to the Year Ended December 31, 2021

Revenue

We derived our revenue from cultivating, processing, and distributing cannabis products through our nineteen dispensaries in five states and our wholesale sales to third parties in four states. For the year ended December 31, 2022, 83% of the revenue was generated from retail dispensaries and 17% from wholesale business. For the year ended December 31, 2021, 82% of the revenue was generated from retail business and 18% from wholesale business.

For the year ended December 31, 2022, Minnesota operations contributed approximately 51% of revenues, New York contributed 20%, Arizona contributed 3%, New Mexico contributed 8%, and Maryland contributed 18%. For the year ended December 31, 2021, Minnesota operations contributed approximately 40% of revenues, New York contributed 25%, Arizona contributed 16%, New Mexico contributed 6%, and Maryland contributed 13%.

Revenue for the year ended December 31, 2022, was \$74,625,867, an increase of \$20,179,699 or 37% compared to revenue of \$54,446,168 for year ended December 31, 2021. The increase is primarily attributable to revenue contributions from the retail business in Minnesota of \$15.7 million, the retail business in Maryland of \$4.7 million, and the retail business in New Mexico of \$2.9 million, partially offset by the lack of revenues from the Arizona retail business, which was divested in 2021. Key revenue drivers are the increased patient demand in Minnesota driven by the addition of cannabis flower to the Minnesota medical program in March of 2022, the commencement of adult-use marijuana sales in New Mexico on April 1, 2022, and the acquisition of Charm City Medicus, LLC in the fourth quarter of 2021.

Retail revenue for the year ended December 31, 2022, was \$62,123,357, an increase of \$17,430,972 or 39% compared to retail revenue of \$44,692,385 for the year ended December 31, 2021, primarily due to increased revenue contributions from Minnesota, Maryland, and New Mexico.

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Wholesale revenue for the year ended December 31, 2022, was \$12,502,510, an increase of \$2,748,727 compared to wholesale revenue of \$9,753,783 for year ended December 31, 2021. The increase was primarily due to increased wholesale demand in Maryland and New York.

	Year Ended December 31,		\$ Change	% Change
	2022	2021		
Retail:				
MN	\$ 37,461,646	\$ 21,795,356	\$ 15,666,290	72 %
NY	10,676,424	11,473,918	(797,494)	(7)%
AZ	—	5,053,669	(5,053,669)	(100)%
NM	6,040,847	3,100,803	2,940,044	95 %
MD	7,944,440	3,268,639	4,675,801	143 %
Total Retail	\$ 62,123,357	\$ 44,692,385	\$ 17,430,972	39 %
Wholesale:				
AZ	\$ 2,361,233	\$ 3,519,835	\$ (1,158,602)	(33)%
MD	5,474,824	3,688,359	1,786,465	48 %
NY	3,994,313	2,478,906	1,515,407	61 %
MN	672,140	—	672,140	100 %
OH	—	66,683	(66,683)	(100)%
Total Wholesale	\$ 12,502,510	\$ 9,753,783	\$ 2,748,727	28 %
Total Revenue	\$ 74,625,867	\$ 54,446,168	\$ 20,179,699	37 %
NM, AZ, and OH	\$ (8,402,080)	\$ (6,687,321)	\$ (1,714,759)	26 %
Total Revenue excluding NM and AZ	\$ 66,223,787	\$ 47,758,847	\$ 18,464,940	39 %

N.M. Not Meaningful

Cost of Goods Sold and Gross Profit

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

Cost of goods sold for the year ended December 31, 2022, was \$43,717,706, an increase of \$9,070,223 compared to the year ended December 31, 2021 of \$34,647,483, driven most significantly by the product costs associated with the increase in revenues year over year.

Gross profit for the year ended December 31, 2022, was \$30,908,161, representing a gross margin of 41%. This is compared to gross profit for the year ended December 31, 2021, of \$19,798,685 or a 36% gross margin. The increase in margin and gross profit was driven primarily by increased retail revenues, specifically increased Minnesota retail contributions as a percentage of overall revenue, which carry higher margins.

Total Operating Expenses

Total operating expenses for the year ended December 31, 2022, were \$37,847,526, a decrease of \$2,432,723 compared to total expenses of \$40,280,249 for the year ended December 31, 2021. The decrease in total expenses was attributable to a decrease in share-based compensation of \$2,488,444.

Operating Loss before Income Taxes and Other Income (Expense)

Operating loss before other income (expense) and provision for income taxes for the year ended December 31, 2022, was \$(6,939,365), a decrease of \$13,542,199 compared to an operating loss before other income (expense) and provision for income taxes of \$(20,481,564) for the year ended December 31, 2021.

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Total Other Income (Expense)

Total other expense for the year ended December 31, 2022, was \$(29,625,079), an increase of \$20,538,168 compared to other expense of \$(9,086,911) or the year ended December 31, 2021. The increase in other expense is primarily attributable to increased interest expense of \$12,018,182 in 2022 driven by the issuance of promissory notes, increased impairment charges of \$3,426,250 related to long-lived assets, and a decrease of \$6,734,680 in asset disposal gains due to a lack of asset divestitures in 2022.

Provision for Income Taxes

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the year ended December 31, 2022, Federal and State income tax expense totaled \$5,893,000 compared to tax expense of \$4,122,000 for the year ended December 31, 2021. The increase in tax expense is primarily attributable to the increase in gross profit relative to the prior year.

Non-GAAP Measures

EBITDA is a non-GAAP measure that does not have a standardized definition under GAAP. Total Revenues excluding revenues from states where we have divested operations in 2021, 2022, and 2023 is also a non-GAAP measure that does not have a standardized definition under GAAP. The following information provides reconciliations of the supplemental non-GAAP financial measure EBITDA presented herein to the most directly comparable financial measures calculated and presented in accordance with GAAP. Reconciliations of the supplemental non-GAAP financial measure Total Revenues that excludes revenues from states where we have divested operations in 2021, 2022 and 2023 presented herein to the most directly comparable financial measures calculated in accordance with GAAP can be found in the tables above where the measures appear. We have provided these non-GAAP financial measures, which are not calculated or presented in accordance with GAAP, as supplemental information and in addition to the financial measures that are calculated and presented in accordance with GAAP. These supplemental non-GAAP financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believes that the supplemental non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. This supplemental non-GAAP financial measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented.

	Year Ended December 31,	
	2023	2022
Net income (loss)	\$ (25,547,089)	\$ (42,457,444)
Interest expense, net	31,260,798	22,593,552
Income taxes	7,723,000	5,893,000
Depreciation & Amortization	1,148,809	1,329,643
Depreciation and amortization included in cost of goods sold	2,453,653	2,682,818
EBITDA (non-GAAP)	<u>\$ 17,039,171</u>	<u>\$ (9,958,431)</u>

Liquidity and Capital Resources

As of December 31, 2023 and 2022, the Company had a working capital deficiency of \$(30,615,109) and \$17,019,820 respectively, reflecting a decrease in working capital of \$47,634,929 for the year ended December 31, 2023 driven by the reclassification of long-term debt to current.

The Company is an early-stage growth company. It is generating cash from sales and is deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term.

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Capital reserves are being utilized for capital expenditures and improvements in existing facilities, product development and marketing, as well as customer, supplier and investor and industry relations.

Credit Facility

During 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. In 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. The Company has paid off \$60,000 in principal, and the remaining \$1,050,000 principal balance is due on December 31, 2023. The Company repaid the note in full subsequent to year end.

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. On November 19, 2023, the Company and lender amended the note. Per the terms of the amendment, the interest rate was modified to 15%, and the Company paid off \$1,000,000 of principal. The remaining principal balance of \$1,000,000 is due on November 19, 2024, and the note is secured by 25% of the membership interests in Vireo Health of Charm City, LLC.

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. 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 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 a maturity date of November 29, 2024. 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**"). 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.

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 15,000,000 Subordinate Voting Shares in lieu of a cash extension fee. These 15,000,000 shares were valued at \$1,407,903 and considered a deferred financing cost. 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.

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. As of December 31, 2023, \$1,524,531 (2022 - \$5,085,792) of deferred financing costs remain unamortized.

Convertible Notes

On April 28, 2023, the Company closed on a new convertible debt facility which enables the Company to access up to \$10,000,000 in aggregate principal amount of convertible notes (the "**Convertible Notes**"). The convertible facility has a term of three years, with an annual interest rate of 12.0%, 6.0% cash and 6.0% paid-in-kind. The initial tranche's principal amount of Convertible Notes outstanding in the amount of \$2,000,000, plus all paid-in-kind interest and all other accrued but unpaid interest thereunder, is convertible into Subordinate Voting Shares of the Company at the option of the

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holders at any time by written notice to the Company, at a conversion price equal to \$0.145. For each future tranche advanced, the principal amount of Convertible Notes outstanding, plus all paid-in-kind interest and all other accrued but unpaid interest thereunder, is convertible into Subordinate Voting Shares of the Company at the option of the holders at any time by written notice to the Company, at a conversion price equal to the lesser of \$0.145 or a 20.0% premium over the 30-day volume weighted average price of the Company's Subordinate Voting Shares calculated on the day prior to the date on which each tranche is advanced, if permitted by the Canadian Securities Exchange. The lenders also have the right to advance any remaining undrawn funds on the convertible loan facility to the Company at any time. If the notes are not converted, the outstanding principal amount and unpaid paid-in-kind interest is due on April 30, 2026.

During the year ended December 31, 2023, the Company closed eight additional tranches of Convertible Notes, which are convertible into Subordinate Voting Shares at a conversion price of \$0.145. Total proceeds received from these tranches amounted to \$8,000,000.

In connection with this financing, the Company issued 6,250,000 warrants to purchase Subordinate Voting Shares of the Company to the lenders. These warrants have a five year term, a strike price of \$0.145, and were valued at \$497,055 (Note 16). The value of these warrants and other legal and administrative expenses amounting to \$1,346,793 are treated as deferred financing costs. 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. As of December 31, 2023, \$1,083,697 of deferred financing costs remain unamortized.

Cash Used in Operating Activities

Net cash used in operating activities was \$1.0 million for the year ended December 31, 2023, a decrease of \$17.1 million as compared to cash used in operating activities of \$18.1 million for the year ended December 31, 2022. The decrease is due to more favorable changes in working capital relative to 2022, increased gross profit, and decreased operating expenses.

Cash Flow from Investing Activities

Net cash used in investing activities was \$3.5 million for the year ended December 31, 2023, compared to net cash used of \$5.6 million for the year ended December 31, 2022. The decrease in cash used is primarily attributable to a decrease in security deposits.

Cash Flow from Financing Activities

Net cash provided by financing activities was \$5.3 million for the year ended December 31, 2023, a decrease of \$18.4 million as compared to the year ended December 31, 2022. The decrease was principally due to fewer net proceeds received from the Credit Facility in 2023.

Lease Transactions

As of December 31, 2023, we have entered into lease agreements for the use of buildings used in cultivation, production and/or sales of cannabis products in Maryland, Minnesota, and New York.

The lease agreements for all of the retail space used for our dispensary operations are with third-party landlords and remaining duration ranges from 1 to 6 years. These agreements are short-term facility leases that require us to make monthly rent payments as well as funding common area costs, utilities and maintenance. In some cases, we have received tenant improvement funds to assist in the buildout of the space to meet our operating needs. As of December 31, 2023, we operated 14 retail locations secured under these agreements.

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

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

	Operating Leases December 31, 2023	Finance Leases December 31, 2023	Total
2023	\$ 2,073,710	\$ 12,472,481	\$ 14,546,191
2024	2,057,603	13,773,155	15,830,758
2025	1,697,744	14,183,661	15,881,405
2026	1,403,358	14,606,527	16,009,885
2027	1,140,431	15,042,128	16,182,559
Thereafter	142,453	218,572,918	218,715,371
Total minimum lease payments	\$ 8,515,299	\$ 288,650,870	\$ 297,166,169
Less discount to net present value	(2,248,361)	(195,157,538)	(197,405,899)
Less liabilities held for sale	(3,214,820)	(85,111,503)	(88,326,323)
Present value of lease liability	\$ 3,052,118	\$ 8,381,829	\$ 11,433,947

Outstanding Share Data

As of December 31, 2024, we had 110,338,223 shares issued and outstanding, consisting of the following:

(a) Subordinate Voting Shares

110,007,030 shares issued and outstanding. The holders of Subordinate Voting Shares are entitled to receive dividends which may be declared from time to time and are entitled to one vote per share at all shareholder meetings. All Subordinate Voting Shares are ranked equally with regards to the Company's residual assets. The Company is authorized to issue an unlimited number of no-par value Subordinate Voting Shares.

(b) Multiple Voting Shares

331,193 shares issued and outstanding. The holders of Multiple Voting Shares are entitled to one hundred votes per share at all shareholder meetings. Each Multiple Voting Share is exchangeable for one hundred Subordinate Voting Shares. The Company is authorized to issue an unlimited number of Multiple Voting Shares.

(c) Super Voting Shares

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

Options, Warrants, and Convertible Promissory Notes

As of December 31, 2023, we had 29,969,324 employee stock options outstanding, 2,543,011 RSUs outstanding, 3,037,649 Subordinate Voting Share compensation warrants denominated in C\$ related to financing activities, and 16,400,000 Subordinate Voting Share compensation warrants outstanding

Off-Balance Sheet Arrangements

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

Summary of Significant Accounting Policies and Estimates

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

Use of estimates and significant judgments

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

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

Revenue Recognition

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

Revenue is recognized when control of the promised goods or services, through performance obligations by the Company, is transferred to the customer in an amount that reflects the consideration it expects to be entitled to in exchange for the performance obligations. More specifically, wholesale revenues are recognized upon delivery and acceptance by wholesale customers. Retail revenues are recognized at the point of sale. Discounts are recorded at the time of revenue recognition. Returns were not material during the years ended December 31, 2023 and 2022, but are recognized when the customer is refunded. Revenues are presented net of discounts and returns.

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

Cost of sales

Cost of sales represents costs directly related to manufacturing and distribution of our products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling and the depreciation of manufacturing equipment and production facilities. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities,

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maintenance, and property taxes. Cost of sales also includes inventory valuation adjustments. We recognize the cost of sales as the associated revenues are recognized.

Inventory

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

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

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

Assessing Recoverability of long-lived assets

We review long-lived assets, including property and equipment and definite life intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Asset impairment tests require the allocation of assets to asset groups, where appropriate, which requires significant judgment and interpretation with respect to the integration between the assets and shared resources. In order to determine if assets have been impaired, assets are grouped and tested at the lowest level for which identifiable independent cash flows are available ("**asset group**"). Asset impairment tests require the determination of whether there is an indication of impairment. The assessment of whether an indication of impairment exists is performed at the end of each reporting period and requires the application of judgment, historical experience, and external and internal sources of information. An impairment loss is recognized when the sum of projected undiscounted cash flows is less than the carrying value of the asset group. The measurement of the impairment loss to be recognized is based on the difference between the fair value and the carrying value of the asset group. Fair value can be determined using a market approach, income approach or cost approach. The reversal of impairment losses is prohibited. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If impairment indicators exist and are not identified, or judgment and assumptions used in assessing the recoverable amount change, the carrying value of long-lived assets can exceed the recoverable amount.

Impairment of goodwill and indefinite life intangible assets

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

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

Estimating the fair value of Stock-based compensation

In January 2019, the Company adopted the 2019 Equity Incentive Plan under which the Company may grant incentive stock option, restricted shares, restricted share units, or other awards. The exercise price for incentive stock options issued under the plan will be set by the Administrator (as defined under the plan) but will not be less 100% of the fair market value of the Company's shares on the date of grant. The Company measures and recognizes compensation expense for stock options to employees and non-employees on a straight-line basis over the vesting period based on their grant date fair values. The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option pricing model. Estimates in our stock-based compensation valuations are highly complex and subjective. Determining the estimated fair value of at the grant date requires judgment in determining the appropriate valuation model and assumptions, including the fair value of common shares on the grant date, risk-free rate, volatility rate, annual dividend yield and the expected term. The volatility rate is based on historical volatilities of public companies operating in a similar industry to the Company. Stock options have a maximum term of 10 years from the date of grant. The stock options vest at the discretion of the Board. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.

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

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

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

Assessing the realizability of deferred tax assets

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Management assesses the likelihood that the resulting deferred tax assets will be realized. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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

Recently Issued Accounting Standards

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