Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm (PCAOB ID 731)

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, 2023 and 2022, and the related consolidated statements of net loss and comprehensive loss, stockholders' equity (deficiency), and cash flows for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, and the results of its operations and its cash flows for the years ended December 31, 2023 and 2022 in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the 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 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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

/s/ Davidson & Company LLP

Vancouver, Canada | Chartered Professional Accountants

April 1, 2024

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

		December 31, 2023		December 31, 2022
Assets				
Current assets:				
Cash	$	15,964,665	$	15,149,333
Accounts receivable, net of credit losses of $254,961 and $453,860, respectively		3,086,640		4,286,072
Income tax receivable		12,278,119		—
Inventory		19,285,870		20,508,023
Prepayments and other current assets		1,336,234		2,544,532
Notes receivable, current		3,750,000		—
Warrants held		1,937,352		—
Assets Held for Sale		91,213,271		4,240,781
Total current assets		148,852,151		46,728,741
Property and equipment, net		23,291,183		89,606,932
Operating lease, right-of-use asset		2,018,163		6,110,787
Notes receivable, long-term		—		3,750,000
Intangible assets, net		8,718,577		8,776,946
Goodwill		—		183,836
Deposits		383,645		2,312,161
Deferred tax assets		—		1,687,000
Total assets	$	183,263,719	$	159,156,403
Liabilities				
Current liabilities				
Accounts Payable and Accrued liabilities	$	7,674,389	$	14,928,780
Long-Term debt, current portion		60,220,535		11,780,000
Right of use liability		890,013		1,680,294
Uncertain tax liability		22,356,000		—
Liabilities held for sale		88,326,323		1,319,847
Total current liabilities		179,467,260		29,708,921
Right-of-use liability		10,543,934		79,757,994
Other long-term liabilities		155,917		—
Convertible debt, net		9,140,257		—
Long-Term debt, net		—		46,248,604
Total liabilities	$	199,307,368	$	155,715,519
Commitments and contingencies (refer to Note 18)				
Stockholders' equity (deficiency)				
Subordinate Voting Shares ($- par value, unlimited shares authorized; 110,007,030 shares issued and outstanding at December 31, 2023 and 86,712,030 at December 31, 2022)		—		—
Multiple Voting Shares ($- par value, unlimited shares authorized; 331,193 shares issued and outstanding at December 31, 2023 and 348,642 at December 31, 2022)		—		—
Super Voting Shares ($- par value; unlimited shares authorized; 0 shares issued and outstanding at December 31, 2023 and 65,411 at December 31, 2022)		—		—
Additional Paid in Capital		187,384,403		181,321,847
Accumulated deficit		(203,428,052)		(177,880,963)
Total stockholders' equity (deficiency)	$	(16,043,649)	$	3,440,884
Total liabilities and stockholders' equity (deficiency)	$	183,263,719	$	159,156,403

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, except per share amounts)

	For the Years Ended December 31, 2023	2022
Revenue	$ 88,133,163	$ 74,625,867
Cost of sales		
Product costs	42,739,653	39,423,918
Inventory valuation adjustments	1,289,345	4,293,788
Gross profit	44,104,165	30,908,161
Operating expenses:		
Selling, general and administrative	28,217,980	33,823,686
Stock-based compensation expenses	4,157,598	2,694,197
Depreciation	469,948	653,077
Amortization	678,861	676,566
Total operating expenses	33,524,387	37,847,526
Income (loss) from operations	10,579,778	(6,939,365)
Other income (expense):		
Impairment of long-lived assets	(411,629)	(8,596,201)
Gain (loss) on disposal of assets	(4,477,738)	322,181
Interest expenses, net	(31,260,798)	(22,593,552)
Other income (expenses)	7,746,298	1,242,493
Other income (expenses), net	(28,403,867)	(29,625,079)
Loss before income taxes	(17,824,089)	(36,564,444)
Current income tax expenses	(6,036,000)	(6,085,000)
Deferred income tax recoveries	(1,687,000)	192,000
Net loss and comprehensive loss	(25,547,089)	(42,457,444)
Net loss per share - basic and diluted	$ (0.19)	$ (0.33)
Weighted average shares used in computation of net loss per share - basic and diluted	135,235,919	128,126,330

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

GOODNESS GROWTH HOLDINGS, INC.
Consolidated Statements of Stockholders' Equity (Deficiency)
(In U.S. Dollars, except per share amounts)

	Common Stock								
	SVS		MVS		Super Voting Shares				
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (deficiency)
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
Balance, January 1, 2023	86,721,030	$ —	348,642	$ —	65,411	$ —	$ 181,321,847	$ (177,880,963)	$ 3,440,884
Conversion of MVS shares	1,744,900	—	(17,449)	—	—	—	—	—	—
Conversion of Super Voting Shares	6,541,100	—	—	—	(65,411)	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	4,157,598	—	4,157,598
Shares issued in financing activities	15,000,000	—	—	—	—	—	1,407,903	—	1,407,903
Warrants issued in financing activities	—	—	—	—	—	—	497,055	—	497,055
Net Loss	—	—	—	—	—	—	—	(25,547,089)	(25,547,089)
Balance at December 31, 2023	110,007,030	$ —	331,193	$ —	—	$ —	$ 187,384,403	$ (203,428,052)	$ (16,043,649)

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)

	For the Years Ended December 31, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (25,547,089)	$ (42,457,444)
Adjustments to reconcile net loss to net cash used in operating activities:		
Inventory valuation adjustments	1,289,345	4,293,788
Depreciation	469,948	653,077
Depreciation capitalized into inventory	2,404,095	2,682,818
Non-cash operating lease expense	523,662	934,443
Amortization of intangible assets	678,861	676,566
Amortization of intangible assets capitalized into inventory	49,558	—
Stock-based payments	4,157,598	2,885,223
Warrants receivable	(1,937,352)	—
Interest Expense	7,070,026	4,935,616
Impairment of long-lived assets	411,629	8,596,201
Deferred income tax	1,687,000	(192,000)
Accretion	994,654	3,979,503
Loss (gain) on sale of property and equipment	—	(173,938)
Loss on disposal of Red Barn Growers	2,909,757	—
Loss (gain) on disposal of assets	1,567,981	—
Gain on disposal of royalty asset	—	(168,359)
Change in operating assets and liabilities:		
Accounts Receivable	1,449,432	227,747
Prepaid expenses	1,182,766	(984,419)
Inventory	(1,823,391)	(3,992,663)
Income taxes	(18,330,899)	801,471
Uncertain tax position liabilities	22,356,000	—
Accounts payable and accrued liabilities	(1,256,913)	(770,895)
Changes in operating lease liabilities	(1,151,011)	—
Change in assets and liabilities held for sale	(121,563)	—
Net cash provided by (used in) operating activities	$ (965,906)	$ (18,073,265)
CASH FLOWS FROM INVESTING ACTIVITIES:		
PP&E Additions	$ (4,963,107)	$ (5,561,663)
Intangible license additions	(1,090,919)	—
Proceeds from sale of Red Barn Growers net of cash	689,186	395,458
Proceeds from sale of property, plant, and equipment	253,288	—
Proceeds from sale of royalty asset	—	236,635
Deposits	1,636,455	(686,948)
Net cash provided by (used in) investing activities	$ (3,475,097)	$ (5,616,518)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt, net of issuance costs	$ —	$ 25,763,080
Proceeds from convertible debt, net of issuance costs	9,150,262	—
Proceeds from option exercises	—	7,201
Debt principal payments	(2,976,362)	—
Lease principal payments	(917,565)	(2,086,444)
Net cash provided by (used in) financing activities	$ 5,256,335	$ 23,683,837
Net change in cash	$ 815,332	$ (5,946)
Cash, beginning of year	$ 15,149,333	$ 15,155,279
Cash, end of year	$ 15,964,665	$ 15,149,333

The accompanying notes are an integral part of these consolidated financial statements. Refer to Note 22 for supplemental cash flow information.

GOODNESS GROWTH HOLDINGS, INC.
Notes to Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

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, and New York, and formerly in Arizona and New Mexico.

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 adult-use as "still a violation of federal law." At the present time, the distinction between "medical marijuana" and "adult-use 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.

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.

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 continue as a going concern. 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, 2023:

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
EHF Cultivation Management, LLC	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 consolidated financial statements of the Company.

During the year ended December 31, 2023, Red Barn Growers, Inc. was removed as a result of a business disposition. Refer to Note 3 for further details on business dispositions.

Recently adopted accounting pronouncements

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 adoption of the standard on January 1, 2023, 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 credit losses, 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, uncertain tax positions, 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, 2023 and 2022, 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 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.

Stock-based compensation - Valuation of stock-based compensation and warrants requires management to make estimates regarding the inputs for option pricing models, such as the expected life of the option, the volatility of the Company's stock price, the vesting period of the option and the risk-free interest rate are used. Actual results could differ from those estimates. The estimates are considered for each new grant of stock options or warrants.

Uncertain tax positions - The evaluation of the Company's uncertain tax positions involves significant judgment in the interpretation and application of GAAP. Although management believes the Company's reserves are reasonable, no assurance can be given that the final outcome of these uncertainties will not be different from that which is reflected in the Company's reserves. Reserves are adjusted considering changing facts and circumstances, such as the closing of a tax examination. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on the Company's financial condition and operating results.

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 debt.

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, 2023 and 2022 were as follows:

	December 31,	
	2023	2022
Stock options	29,969,324	23,547,558
Warrants	19,437,649	3,187,649
RSUs	2,543,011	3,221,677
Convertible debt	70,510,028	—
Total	122,460,012	29,956,884

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

Cash is comprised of cash. 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, deposits, accounts payable, and accrued liabilities approximate their fair value due to their short-term nature, and the carrying value of notes receivable, convertible debt, 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 years, 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 twenty 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	5-18 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, definite life intangible assets, and other long-lived 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.

Financial assets

Initial recognition and measurement

The Company aggregates its financial assets into classes at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows. Non-derivative financial assets are classified and measured as "financial assets at fair value", as either fair value through profit or loss ("FVPL"), or "financial assets at amortized cost", as appropriate.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification.

Subsequent measurement - Financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by considering any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. In these consolidated financial statements, cash, trade and other receivables, indemnification receivables, and loans receivable are classified in this category.

Subsequent measurement - Financial assets at FVPL

Financial assets measured at FVPL include financial assets such as the Company's equity investments in other entities, and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statement of financial position with changes in fair value recognized in a separate caption in the consolidated statements of loss and comprehensive loss.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

Financial assets classified subsequently as amortized cost are subject to impairment based on the expected credit losses ("ECL's"). The Company's financial assets subject to impairment are cash, accounts receivable and notes receivable.

Accounts receivable and notes receivables are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for impairment. Impairment provisions are estimated using the ECL impairment model where any expected future credit losses are provided for, irrespective of whether a loss event has occurred at the reporting date. Estimates of expected credit losses consider the Company's collection history by country and customer, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. The Company utilizes a provision matrix to estimate lifetime ECL's for accounts receivable, supplemented by specific allowance based on customer-specific data. Changes in the allowance are recognized as bad debt expense in the consolidated statements of net loss and comprehensive loss. When the Company determines that no recovery of the amount owed is possible, the amount is deemed irrecoverable, and the financial asset is written off.

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 debt

The Company first analyzes convertible debt with a conversion feature in accordance with ASC 470-20, Debt with Conversion and Other Options ("**ASC 470-20**"), to determine whether the fair value option should be applied. ASC 470-20 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 debt 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 debt are expected to be outstanding as additional non-cash interest expenses.

If the Company does not elect the fair value option, any conversion feature is then evaluated in accordance with ASC 815 to determine if the conversion option is required to be bifurcated. ASC 815 does not require a conversion option to be bifurcated if the conversion option is indexed to the Company's own stock and classified in stockholders' equity in the statement of financial position.

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.

During the year ended December 31, 2023, the Company issued convertible debt (Note 15). It was determined that the debt should be accounted for as a liability in its entirety.

Warrants held

The Company accounts for warrants held under ASC 321, Investments – Equity Securities ("**ASC 321**"). The scope of ASC 321 includes investments in equity securities and other ownership interests in an entity, including investments in partnerships, unincorporated joint ventures and limited liability companies. Under ASC 321 an equity security is any security representing an ownership interest in an entity (e.g., common, preferred, other capital stock) or the right to acquire (e.g., warrants, rights, forward purchase contracts, call options) or dispose of (e.g., put options, forward sale contracts) an ownership interest in an entity at fixed or determinable prices.

ASC 321 calls for equity interests to be carried at fair value with changes in value recorded in earnings. The Company has elected to use a black scholes valuation model to arrive at a fair value of the warrants held (Note 19), which will be remeasured at each period end with any changes in valuation being recorded in other income.

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.

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

	Year Ended December 31, 2023	Year Ended December 31, 2022
Retail	$ 73,620,866	$ 62,123,357
Wholesale	14,512,297	12,502,510
Total	$ 88,133,163	$ 74,625,867

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. Service revenues are recognized when the service is performed. 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.

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).

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.

Advertising Costs

Advertising costs are expensed as incurred and are included in selling, general, and administrative expenses on the accompanying consolidated statements of loss and comprehensive loss and totaled $791,980 and $1,066,946 for the years ended December 31, 2023 and 2022, respectively.

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. 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 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 exercise price 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.

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

ASU 2023-07 In November 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2023-07, *Improvements to Reportable Segment Disclosures (Topic 280)*. This ASU updates reportable segment disclosure requirements by requiring disclosures of significant reportable segment expenses that are regularly provided to the Chief Operating Decision Maker (“CODM”) and included within each reported measure of a segment's profit or loss. This ASU also requires disclosure of the title and position of the individual identified as the CODM and an explanation of how the CODM uses the reported measures of a segment’s profit or loss in assessing segment performance and deciding how to allocate resources. The ASU is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is also permitted. This ASU will result in additional required disclosures when adopted, where applicable.

ASU 2023-09 In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures (Topic 740)*. The ASU requires disaggregated information about a reporting entity’s effective tax rate reconciliation as well as additional information on income taxes paid. The ASU is effective on a prospective basis for annual periods beginning after December 15, 2024. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. Once adopted, this ASU will result in additional disclosures.

3. Assets Held for Sale and Dispositions

Dispositions

On June 23, 2023, the Company divested all the assets and liabilities of Red Barn Growers, Inc., a New Mexico nonprofit organization effectively controlled by the Company’s subsidiary company, Vireo Health of New Mexico, LLC, to 37 Management Group, Inc., a New Mexico corporation (“**37 Management**”). As part of this transaction, the Company is to be paid $1,000,000, less cash on hand of $60,814, of which $439,186 was paid at closing, and $500,000 is to be paid within one year of the close date. The Company received $250,000 in December of 2023. Consideration received was less than the net book value of the transferred assets and liabilities of $3,909,757, resulting in a loss of $2,909,757 which was recorded in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2023.

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 consolidated statement of loss and comprehensive loss for the year ended December 31, 2022.

Assets Held for Sale

As of December 31, 2023, the Company identified property and equipment, deposits, and lease assets and liabilities associated with the businesses in New York, Nevada, and Massachusetts 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.” 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. The carrying value of New York and Nevada net assets exceeded fair value less expected cost to sell, and as such, the Company recorded no impairment loss. The carrying value of the Massachusetts net assets was less than fair value less costs to sell, and as such, the Company recorded an impairment loss of $399,999 for the year ended December 31, 2023. Additionally, the Company disposed of certain held for sale property, equipment, and leased assets for which proceeds received of $253,288 were less than carrying value resulting in a loss on disposal of $1,567,981 in the statement of loss and comprehensive loss. Assets and liabilities held for sale are as follows:

Assets held for sale		
Property and equipment	$	86,864,965
Intangible assets		662,500
Operating lease, right-of-use asset		3,381,612
Deposits		304,194
Total assets held for sale	$	91,213,271
Liabilities held for sale		
Right of Use Liability	$	88,326,323
Total liabilities held for sale	$	88,326,323

Current assets and liabilities held by our New York business have not been classified as held for sale. Pre-tax operating losses attributable to the New York business were $13,670,439 for the year ended December 31, 2023.

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.

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, 2023, the carrying values of property and equipment included in assets held for sale and an intangible license no longer in use 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.

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, convertible debt, 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, 2023	December 31, 2022
Trade receivable	$ 2,256,763	$ 1,421,027
Tax withholding receivable	174,660	2,755,396
Other	655,217	109,649
Total	$ 3,086,640	$ 4,286,072

Included in the trade receivables balance at December 31, 2023, and 2022, are credit losses of $95,686 and $169,699, respectively. Included in the tax withholding receivable, net balance at December 31, 2023 and 2022, are credit losses of $159,275 and $284,161 respectively.

6. Notes Receivable

As of December 31, 2023, and 2022, the Company had a total of $3,750,000 in notes receivable. The balance is comprised of a $3,750,000 four-year note due on August 10, 2024, 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, 2023	December 31, 2022
Work-in-progress	$ 13,058,348	$ 14,209,695
Finished goods	5,278,331	5,506,760
Other	949,191	791,568
Total	$ 19,285,870	$ 20,508,023

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,	
	2023	2022
Work-in-progress	$ 1,099,037	$ 4,003,943
Finished goods	190,308	254,467
Other	—	35,378
Total	$ 1,289,345	$ 4,293,788

During the years ended December 31, 2023 and 2022, the Company recorded write downs to net realizable value in its New York, 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 $1,289,345 and $4,293,788 were recorded in 2023 and 2022 respectively.

8. Prepayments and other current assets

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

	December 31, 2023	December 31, 2022
Prepaid Insurance	$ 806,610	$ 1,894,385
Other Prepaid Expenses	529,624	650,147
Total	$ 1,336,234	$ 2,544,532

9. Property and Equipment, Net

Property and equipment, net consisted of the following:

	December 31, 2023	December 31, 2022
Land	$ 863,105	$ 863,105
Buildings and leasehold improvements	15,124,915	17,567,628
Furniture and equipment	7,807,250	9,709,714
Software	242,204	221,540
Vehicles	284,000	646,257
Construction-in-progress	128,220	794,958
Right of use asset under finance lease	7,938,138	69,892,379
	32,387,832	99,695,581
Less: accumulated depreciation	(9,096,649)	(10,088,649)
Total	$ 23,291,183	$ 89,606,932

For the years ended December 31, 2023 and 2022, total depreciation on property and equipment was $2,874,043 and $3,335,895, respectively. For the years ended December 31, 2023 and 2022, accumulated amortization of the right of use asset amounted to $2,364,557 and $3,392,377, respectively. For the years ended December 31, 2023 and 2022, the right of use asset under finance lease of $7,938,138 and $69,892,379, respectively, consists of leased processing and cultivation premises, and leased equipment. During the years ended December 31, 2023 and 2022, total interest expense capitalized to property plant and equipment was $320,937 and $573,717, respectively. The Company capitalized into inventory $2,404,095 and $2,682,818 relating to depreciation associated with manufacturing equipment and production facilities as of December 31, 2023 and 2022, 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 and comprehensive loss.

As of December 31, 2023, 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 above book value. As a result, the Company recorded an impairment charge of $0 (2022 - $8,596,201) on property and equipment, net.

10. Leases

Components of lease expenses are listed below:

	December 31, 2023	December 31, 2022
Finance lease cost		
Amortization of ROU assets	$ 701,258	$ 1,095,337
Interest on lease liabilities	11,717,705	10,637,686
Operating lease costs	1,879,433	2,556,772
Total lease costs	$ 14,298,396	$ 14,289,795

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

	Operating Leases December 31, 2023	Finance Leases December 31, 2023	Total
2024	$ 2,073,710	$ 12,472,481	$ 14,546,191
2025	2,057,603	13,773,155	15,830,758
2026	1,697,744	14,183,661	15,881,405
2027	1,403,358	14,606,527	16,009,885
2028	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

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 November 1, 2023, the Company notified its landlord in Puerto Rico that it was surrendering the premises. As such, the Company disposed of the held for sale assets affiliated with the Puerto Rico lease and recorded a loss on disposal of assets of $1,632,372 in the statement of loss and comprehensive loss for the year ended December 31, 2023.

On October 27, 2023, the Company executed a fifth amendment to its lease with its landlord on its cannabis cultivation and manufacturing facilities located in Johnstown, New York. As part of the fifth amendment to the lease in Johnstown, the Company and its landlord have agreed to increase the tenant improvement allowance on the lease by an additional $14.0 million. The increase in tenant improvement funds will be utilized to support the completion of the construction of the indoor expansion project that was announced in September 2021. The parties have also agreed to a monthly base rental increase of $210,000 beginning November 2023. The amendment also allows the Company to terminate the lease for a fee of $14,000,000 if written notice is provided on or before January 15, 2024, and subsequently amended to April 30, 2024.

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 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.

Supplemental cash flow information related to leases

	December 31, 2023	December 31, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Lease principal payments - finance	$ 917,565	$ 2,086,444
Lease principal payments - operating	1,151,011	—
Non-cash additions to ROU assets	18,867,764	189,962
Amortization of operating leases	834,793	1,321,530

Other information about lease amounts recognized in the financial statements

	December 31, 2023	December 31, 2022
Weighted-average remaining lease term (years) – operating leases	4.22	4.85
Weighted-average remaining lease term (years) – finance leases	17.19	18.00
Weighted-average discount rate – operating leases	15.00 %	15.00 %
Weighted-average discount rate – finance leases	16.21 %	15.26 %

11. Goodwill

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

Goodwill - December 31, 2021 and 2022	$ 183,836
Divestitures *(Note 3)*	(183,836)
Goodwill - December 31, 2023	$ —

Goodwill is tested for impairment annually or more frequently if indicators of impairment exist or if a decision is made to dispose of the business. The valuation date for the Company's 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.

The Company divested Vireo Health of New Mexico, LLC, and the associated goodwill on June 23, 2023 (Note 3). The Company has no goodwill as of December 31, 2023. As such, no further impairment testing procedures were performed.

12. Intangibles

Intangible assets are comprised of the following items:

	Licenses & Trademarks	Royalty Asset	Total
Balance December 31, 2021	$ 10,116,013	$ 68,276	$ 10,184,289
Divestitures	—	(68,276)	(68,276)
Amortization	(676,566)	—	(676,566)
Transfer to held for sale (Note 3)	(662,501)	—	(662,501)
Balance, December 31, 2022	$ 8,776,946	$ —	$ 8,776,946
Divestitures	(409,239)	—	(409,239)
Additions	1,090,919	—	1,090,919
Amortization	(728,419)	—	(728,419)
Write off	(11,630)	—	(11,630)
Balance, December 31, 2023	$ 8,718,577	$ —	$ 8,718,577

Amortization expense for intangibles was $728,419 and $676,566 during the years ending December 31, 2023 and 2022, respectively and is recorded in operating expenses on the consolidated statements of net loss and comprehensive loss. During the year ended December 31, 2023, the Company wrote off $11,630 relating to a trademark no longer in use. No further indicators of impairment existed, and no additional impairment of intangible assets was recorded for the year ended December 31, 2023.

The Company estimates that amortization expense will be $819,655 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, 2023	December 31, 2022
Accounts payable – trade	$ 1,769,346	$ 1,905,008
Accrued Expenses	4,852,648	6,172,924
Taxes payable	218,563	6,166,145
Contract liability	833,832	684,703
Total accounts payable and accrued liabilities	$ 7,674,389	$ 14,928,780

14. Long-Term Debt

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 (Note 25).

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. In connection with the Credit Facility, the Company also pays a monthly credit monitoring fee in the amount of $130,400 which is included in interest expense in the consolidated statements of loss and comprehensive loss for th years ended December 31, 2023 and 2022.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 using a fair value per share of $0.094 and considered a deferred financing cost. The fair value per share reflects a 22% discount to the market price at the time of issuance to account for the four-month trading lock-up imposed on the shares. The amendment 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.

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

	December 31, 2023	December 31, 2022
Beginning of year	$ 58,028,604	$ 27,329,907
Proceeds	-	28,000,000
Principal repayments	(2,976,362)	—
Deferred financing costs	(1,407,903)	(2,236,919)
PIK interest	1,607,032	1,300,245
Amortization of deferred financing costs	4,969,164	3,635,371
End of period	60,220,535	58,028,604
Less: current portion	60,220,535	11,780,000
Total long-term debt	$ -	$ 46,248,604

As of December 31, 2023, stated maturities of long-term debt were as follows:

2024	$ 60,220,535
Total	$ 60,220,535

15. Convertible Debt

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%, comprised of 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 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.

The following table shows a summary of the Company's convertible debt:

	December 31, 2023	December 31, 2022
Beginning of year	$ —	$ —
Proceeds	10,000,000	—
Deferred financing costs	(1,346,793)	—
PIK interest	223,954	—
Amortization of deferred financing costs	263,096	—
End of year	$ 9,140,257	—
Less: current portion	—	—
Total convertible debt	$ 9,140,257	$ —

16. 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, 2023. The liquidation and dividend rights are identical among Shares equally in our earnings and losses on an as converted basis.

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

Subordinate Voting Shares

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

Multiple Voting Shares

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

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

Super Voting Shares

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

Shares Issued

During the year ended December 31, 2023, the Company issued the 15,000,000 Subordinate Voting Shares to its senior secured lender, Chicago Atlantic Admin, LLC, an affiliate of Green Ivy Capital, and a group of lenders in connection with the fifth amendment to its Credit Facility signed on March 31, 2023 (Note 14).

During the year ended December 31, 2023, 65,411 Super Voting Shares were redeemed for 6,541,100 Subordinate Voting Shares

During the year ended December 31, 2023, 17,449 Multiple Voting Shares were redeemed for 1,744,900 Subordinate Voting Shares

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.

17. 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 than 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, 2023	December 31, 2022
Risk-Free Interest Rate	3.82 %	3.04 %
Weighted Average Exercise Price	$ 0.25	$ 0.90
Weighted Average Stock Price	$ 0.25	$ 0.90
Expected Life of Options (years)	6.19	5.15
Expected Annualized Volatility	100.00 %	81.50 %
Grant Fair Value	$ 0.14	$ 0.40
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, 2023 and 2022 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Avg. Remaining Life
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	—
Balance, December 31, 2022	23,547,558	$ 0.66	7.30
Forfeitures	(4,137,079)	0.82	—
Granted	10,558,845	0.25	6.42
Options Outstanding at December 31, 2023	29,969,324	$ 0.50	6.18
Options Exercisable at December 31, 2023	24,596,552	$ 0.40	5.72

During the years ended December 31, 2023 and 2022, the Company recognized $2,365,775 and $2,151,972 in stock-based compensation relating to stock options, respectively. As of December 31, 2023, the total unrecognized compensation costs related to unvested stock options awards granted was $525,464. In addition, the weighted average period over which the unrecognized compensation expense is expected to be recognized is approximately 1.8 years. The total intrinsic value of stock options outstanding and exercisable as of December 31, 2023, was $497,590 and $429,222, respectively.

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

Warrants

Subordinate Voting Share (SVS) warrants entitle the holder to purchase one subordinate voting share of the Company. Multiple Voting Share (MVS) warrants entitle the holder to purchase one multiple voting share of the Company.

Warrants issued were valued using the Black-Scholes option pricing model with the following assumptions:

SVS Warrants	December 31, 2023	December 31, 2022
Risk-Free Interest Rate	4.23 %	3.99 %
Expected Life (years)	5.00	2.00
Expected Annualized Volatility	100.00 %	100.00 %
Stock Price	$ 0.147	0.150
Exercise Price	$ 0.200	$ 1.490
Grant Date Fair Value	$ 0.106	$ 0.014
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, 2021	—	$ —	—
Granted	150,000	1.49	2.00
Warrants outstanding at December 31, 2022	150,000	$ 1.49	2.00
Granted	16,250,000	0.20	5.00
Warrants outstanding at December 31, 2023	16,400,000	$ 0.21	4.57
Warrants exercisable at December 31, 2023	16,400,000	$ 0.21	4.57

SVS Warrants Denominated in C$	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life
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
Granted	—	—	—
Warrants outstanding at December 31, 2023	3,037,649	$ 3.50	2.23
Warrants exercisable at December 31, 2023	3,037,649	$ 3.50	2.23

MVS Warrants	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life
Warrants outstanding at December 31, 2021	13,583	$ 194.66	0.64
Expired	(13,583)	194.66	—
Warrants outstanding at December 31, 2022 and December 31, 2023	—	—	—
Warrants exercisable at December 31, 2023	—	$ —	—

In connection with the closing of the convertible debt facility (Note 15), 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. The value of these warrants were 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.

On May 25, 2023, the Company and Grown Rogue International, Inc. ("Grown Rogue") entered into a strategic agreement whereby Grown Rogue will support Goodness Growth in the optimization of its cannabis flower products, with a particular focus on improving the quality and yield of top-grade "A" cannabis flower across its various operating markets, starting with Maryland and Minnesota. As part of this strategic agreement the Company issued 10,000,000 warrants to purchase subordinate voting shares of Goodness Growth to Grown Rogue, with a strike price equal to $0.233. During the year ended December 31, 2023, $1,233,560 (2022 - $0) in stock-based compensation was recorded in connection with the issuance of these SVS 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 stock-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 the 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 years ended December 31, 2023 and 2022, the Company recognized $558,263 and $731,217, respectively, 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
Forfeitures	(678,666)	0.54
Balance, December 31, 2023	2,543,011	$ 0.88
Vested at December 31, 2023	969,428	$ 1.67

18. 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, sought 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.

While Vireo U.S. continues to believe that Schneyer's claims lack merit, it agreed to settle the litigation in April 2023 to avoid the expense, distraction and risk of the pre-trial and trial processes. Entering into this settlement in no way changed the defendants' position that they did nothing wrong and that the claims were baseless.

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 a $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 termination of the Arrangement Agreement, which the Company determined to treat as a repudiation 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.

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 based upon the Company's belief that Verano was engaging in tactics to delay the litigation.

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, which it anticipates filing within 30 days.

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 damages sought will be significant and material given that Verano's breach left the Company in a vulnerable position resulting in the Company being constrained in its ability to fund growth initiatives that were desirable and that its competitors were able to undertake, most notably in Minnesota and New York markets.

Lease commitments

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

19. Other Income (Expense)

The Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") provides an employee retention credit ("CARES Employee Retention credit"), which is a refundable tax credit against certain employment taxes of up to $5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at $10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were passed by the United States government, which extend and slightly expand the qualified wage caps on these credits through December 31, 2021. Based on these additional provisions, the tax credit is now equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee has been increased to $10,000 of qualified wages per quarter. The Company qualifies for the tax credit under the CARES Act. During the year ended December 31, 2023, the Company recorded $5,855,076 (2022 - $0) related to the CARES Employee Retention credit in other income on the consolidated statement of net loss and comprehensive loss for the year ended December 31, 2023. The Company has collected $5,855,076 of this credit.

On May 25, 2023, the Company and Grown Rogue entered into a strategic agreement whereby Grown Rogue will support Goodness Growth in the optimization of its cannabis flower products. As part of this strategic agreement Grown Rogue granted the Company 8,500,000 warrants to purchase subordinate voting shares of Grown Rogue to Goodness Growth on October 5, 2023. These warrants were recorded as other income in the consolidated statement of net loss and comprehensive loss at a fair value of $1,937,532 on December 31, 2023. The fair value was derived from a black-scholes valuation using a stock price of $0.28, an exercise price of $0.17, an expected life of 4.77 years, an annual risk free rate of 4.68%, and volatility of 100%.

20. General and Administrative Expenses

General and administrative expenses are comprised of the following items:

	Year Ended December 31, 2023	Year Ended December 31, 2022
Salaries and benefits	$ 15,198,589	$ 16,987,788
Professional fees	4,098,050	5,589,074
Insurance expenses	2,626,922	2,776,728
Marketing	791,980	1,066,946
Other expenses	5,502,439	7,403,150
Total	$ 28,217,980	$ 33,823,686

21. Income Taxes

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

	Years Ended December 31, 2023	Years Ended December 31, 2022
United States	$ (17,824,089)	$ (36,564,444)
Total	$ (17,824,089)	$ (36,564,444)

The (recoveries) expenses for income taxes consists of:

	Year ended December 31, 2023	2022
Current:		
Federal	$ 6,111,000	$ 5,950,000
State	(75,000)	135,000
Total	6,036,000	6,085,000
Deferred:		
Federal	1,663,000	(2,171,000)
State	24,000	1,979,000
Total	1,687,000	(192,000)
Total	$ 7,723,000	$ 5,893,000

	Year ended December 31, 2023	2022
Loss before income taxes:	$ (17,824,089)	$ (36,564,444)
Income tax benefits at statutory rate	(3,743,059)	(7,678,533)
State Taxes	(1,061,542)	1,423,205
Non-deductible expenses	26,928	10,231,020
Stock based and other compensation	873,096	565,781
Warrant income	(406,844)	—
Change in valuation allowance	6,676,000	5,103,000
Uncertain Tax Position	22,356,000	—
Federal true up	(14,388,074)	—
State true up	(2,123,580)	—
Rate true up and other	(485,925)	(3,751,473)
Income tax expense, net	$ 7,723,000	$ 5,893,000

The following table summarizes the components of deferred tax:

	2023	2022
Deferred tax assets		
Operating loss carryforwards - United States	$ 7,478,000	$ 3,806,000
Credit losses	71,000	137,000
Inventory reserve	186,000	312,000
Financing leases	4,676,000	1,845,000
Intangible assets	564,000	483,000
Property and equipment	1,695,000	3,158,000
Capital loss carryforward	888,000	310,000
Excess business interest expense	10,382,000	—
Share based compensation	188,000	58,000
Total Deferred tax assets	26,128,000	10,109,000
Less valuation allowance	(25,077,000)	(6,638,000)
Net deferred tax assets	1,051,000	3,471,000
Deferred tax liabilities		
Related party management fee receivables	—	654,000
Installment sale	1,051,000	1,130,000
Warrants receivable	—	—
Total deferred tax liabilities	1,051,000	1,784,000
Net deferred tax asset/(tax liabilities)	$ —	$ 1,687,000

At December 31, 2023, the Company had United States federal net operating loss carryforwards of approximately $25,400,000 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 $29,500,000 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, 2023 and 2022, the Company had a cumulative balance of accrued interest and penalties on unrecognized tax positions of $635,000 and $0, respectively on the consolidated balance sheet.

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 2020.

The Company operates in a number of domestic tax jurisdictions and is subject to examination of its income tax returns by tax authorities in these jurisdictions who may challenge any item of those returns. Because tax matters that may be challenged by tax authorities are typically complex, the ultimate outcome of these challenges is uncertain. The Company accounts for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon technical merits, it is more-likely-than-not that the position will be sustained upon examination. The Company evaluates uncertain tax positions on a quarterly basis and adjusts the level of the liability to reflect any subsequent changes in the relevant facts surrounding the uncertain positions. The measurement of the uncertain tax position is based on the largest benefit amount to be realized upon settlement of the matter. If payment ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. If the Company’s estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to income tax expense may result. As of December 31, 2023, the Company recorded an uncertain tax liability for uncertain tax positions primarily related to the treatment of certain transactions and deductions under IRC Section 280E based on legal interpretations that challenge the Company’s tax liability under IRC Section 280E. The Company and its subsidiaries are filing amended tax returns for periods ending 2020 through 2022 to reflect this position. The Company does not expect any resolution to this uncertain tax position in the next 12 months. An estimate of the range of the possible change cannot be made until these tax matters are further developed or resolved.

The following table shows a summary of uncertain tax positions:

	2023	2022
Beginning Balances	$ —	$ —
Increase related to tax positions taken during a prior year	16,711,000	—
Increases related to tax positions taken during the current year	5,645,000	—
Ending Balances	$ 22,356,000	$ —

22. Supplemental Cash Flow Information(1)

	December 31, 2023	December 31, 2022
Cash paid for interest	$ 24,965,769	$ 16,560,487
Cash paid for income taxes	2,043,094	5,132,280
Change in construction accrued expenses	444,865	94,556
Warrants issued in connection with financing activities	497,055	—

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

23. 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, deposits, 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, 2023, the Company's financial liabilities consist of accounts payable and accrued liabilities, debt and convertible 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, 2023, would have resulted in a corresponding change in the statement of loss and comprehensive loss of $836,226.

24. Related Parties Transactions

As of December 31, 2023, and 2022, there was $121,846 and $1,613, respectively, due to related parties.

For the years ended December 31, 2023, and 2022, the Company paid a related party (Bengal Impact Partners, of which Joshua Rosen, who is the Company's Chief Executive Officer, Interim Chief Financial Officer, and a member of the Company's Board of Directors, is a managing partner) $1,613 and $120,000, respectively, for ongoing corporate advisory services.

In 2022 the Company granted 150,000 compensation warrants to Bengal Impact Partners for ongoing corporate advisory services (Note 16).

25. Subsequent Events

On February 22, 2024, the Company executed a lease with its landlord on a site for cannabis cultivation and manufacturing facilities. Per the terms of the lease the landlord agreed to provide the Company with $2,000,000 of tenant improvement allowances. Rent payments will not commence until January 1, 2025, at which time monthly base rent will be $82,500. Starting January 1, 2025, the Company has the option to purchase the property. The initial purchase price is $13,000,000 increasing by 3% at the start of each calendar year until the option expires on December 31, 2028. The lease expires on December 31, 2034.

On March 25, 2024, the Company paid off $1,050,000 in principal of it's outstanding notes payable (Note 14). This note was due on December 31, 2023, and has no remaining outstanding balance.

On April 1, 2024, the Company executed a eighth amendment to its lease with its landlord on its cannabis cultivation and manufacturing facilities located in Johnstown, New York. As part of the eighth amendment to the lease in Johnstown, the Company extended it's option to terminate the lease. Written notice of termination now needs to be provided by June 15, 2024. Additionally, the Company has a purchase option to buy the premises for $81,000,000. The purchase option extends through March 27, 2026, and the purchase price increases 3% every six months.

On April 1, 2024, ACE Ventures, LLC ("Ace"), a minority-owned business partnership in the State of New York, and the Company executed a binding term sheet whereby Ace plans to acquire the Company's subsidiary, Vireo Health of New York ("VireoNY"), pending the satisfaction of closing conditions, including secured capital commitments and regulatory approval. Terms of the transaction include a purchase price between $3.0 and $5.0 million for Vireo Health of New York's licenses, inventory and assets, as well as either Ace's assumption of the lease agreement with Innovative Industrial Properties ("IIP") for the Johnstown, NY cannabis cultivation and manufacturing campus or Ace's acquisition of this campus. Ace has agreed to take financial responsibility for VireoNY's operations, including its operating losses, beginning on April 1, 2024. These activities are expected to be supported initially by a $2.5 million unsecured loan from the Company to VireoNY.