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

You should read the following discussion and analysis of our financial condition and results of operations together with the financial information and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our outlook, plans and strategy for our business and potential financing, includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or "forward-looking information" within the meaning of Canadian securities laws. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "remain," "could," "estimate," "expect," "intend," "may," "plan," "project," "will," "would," "should," "potential," "intention," "strategy," "strategic," "approach," "subject to," "possible," "pending," "if," or the negative or plural of these words or similar expressions or variations. Such forward-looking statements and forward-looking information are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements or forward-looking information. Factors that could cause or contribute to such differences include, but are not limited to, those identified in this Quarterly Report on Form 10-Q and those discussed in the section titled "Risk Factors" set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023, as amended, and in our other SEC and Canadian public filings. Such forward-looking statements reflect our beliefs and opinions on the relevant subject based on information available to us as of the date of this report, and while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements. You should not rely upon forward-looking statements or forward-looking information as predictions of future events. Furthermore, such forward-looking statements or forward-looking information speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements or forward-looking information to reflect events or circumstances after the date of such statements.

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

Overview of the Company

Goodness Growth is a cannabis company whose mission is to provide safe access, quality products and value to its customers while supporting its local communities through active participation and restorative justice programs. The Company is evolving with the industry and is in the midst of a transformation to being significantly more customer-centric across its operations, which include cultivation, manufacturing, wholesale and retail business lines. With our core operations strategically located in three limited-license markets through our state-licensed subsidiaries, we cultivate and manufacture cannabis products and distribute these products through our growing network of Green Goods® and other retail dispensaries we own or operate as well as to third-party dispensaries in the markets in which our subsidiaries hold operating licenses.

The termination of the Arrangement Agreement with Verano (as more fully described in Note 17 – Commitments and Contingencies – of our notes to our consolidated financial statement contained herein) 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.

Three months ended March 31, 2024, Compared to Three months ended March 31, 2023

Revenue

We derived our revenue from cultivating, processing, and distributing cannabis products through our eighteen dispensaries in four states and our wholesale sales to third parties in two states. For the three months ended March 31, 2024, 81% of our revenue was generated from retail dispensaries and 19% from the wholesale business. For the three months ended March 31, 2023, 86% of our revenue was generated from retail business and 14% from wholesale business.

For the three months ended March 31, 2024, Minnesota operations contributed approximately 46% of revenues, New York contributed 12%, and Maryland contributed 42%. For the three months ended March 31, 2023, Minnesota operations contributed approximately 56% of revenues, New York contributed 18%, New Mexico contributed 6%, and Maryland contributed 20%.

Revenue for the three-months ended March 31, 2024, was $24,087,315, an increase of $4,998,892 or 26% compared to revenue of $19,088,423 for the three-months ended March 31, 2023. The increase is primarily attributable to increased revenue contributions from the Maryland business driven by the commencement of adult-use sales on July 1, 2023, partially offset by the decrease in New Mexico revenues, which was divested in June of 2023.

Retail revenue for the three months ended March 31, 2024, was $19,599,440 an increase of $3,127,641 or 19% compared to retail revenue of $16,471,799 for the three months ended March 31, 2023, primarily due to increased revenue contributions from the Maryland business driven by the commencement of adult-use sales on July 1, 2023, partially offset by the decrease in New Mexico revenues, which was divested in June of 2023.

Wholesale revenue for the three months ended March 31, 2024, was $4,487,875, an increase of $1,871,251 compared to wholesale revenue of $2,616,624 for the three months ended March 31, 2023. The increase was primarily due to increased revenue contributions from the Maryland business driven by the commencement of adult-use sales on July 1, 2023.

	Three Months Ended March 31,			
	2024	2023	$Change	% Change
Retail:				
MN	$ 10,977,089	$ 10,718,916	$ 258,173	2 %
NY	1,821,269	2,361,942	(540,673)	(23)%
NM	—	1,052,316	(1,052,316)	(100)%
MD	6,801,082	2,338,625	4,462,457	191 %
Total Retail	**$ 19,599,440**	**$ 16,471,799**	**$ 3,127,641**	**19 %**
Wholesale:				
MD	3,353,661	1,563,875	1,789,786	114 %
NY	1,134,214	1,052,749	81,465	8 %
Total Wholesale	**$ 4,487,875**	**$ 2,616,624**	**$ 1,871,251**	**72 %**
Total Revenue	**$ 24,087,315**	**$ 19,088,423**	**$ 4,998,892**	**26 %**
NY and NM	$ (2,955,483)	$ (4,467,007)	$ 1,511,524	(34)%
Total Revenue excluding NY and NM	**$ 21,131,832**	**$ 14,621,416**	**$ 6,510,416**	**45 %**

N.M. Not Meaningful

Cost of Goods Sold and Gross Profit

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

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

Cost of goods sold for the three months ended March 31, 2024, was $11,842,888, an increase of $2,274,677 compared to the three months ended March 31, 2023, of $9,568,211.

Gross profit for the three months ended March 31, 2024, was $12,244,427, representing a gross margin of 51%. This is compared to gross profit for the three months ended March 31, 2023, of $9,520,212 or a 50% gross margin. The increase was primarily attributable to increased profit and margin contributions in Maryland driven by the commencement of Maryland adult-use sales on July 1, 2023.

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

Total Expenses

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

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

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

Total expenses for the three months ended March 31, 2024, were $7,484,983 a decrease of $1,666,723 compared to total expenses of $9,151,706 for the three months ended March 31, 2023. The decrease in total expenses is primarily attributable to a decrease in salaries and wages and stock-based compensation expense.

Operating Income before Other Income (Expense) and Income Taxes

Operating income before other income (expense) and provision for income taxes for the three months ended March 31, 2024, was $4,759,444 an increase of $4,390,938 compared to operating income of $368,506 for the three months ended March 31, 2023.

Total Other Expense

Total other expense for the three months ended March 31, 2024, was $7,525,904, an increase of $413,428 compared to other expense of $7,112,476 for the three months ended March 31, 2023. This change is primarily attributable to an increased interest expenses partially offset by the gain on warrants held of $1,327,879.

Provision for Income Taxes

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For the three months ended March 31, 2024, tax expense totaled $3,945,000 compared to tax expense of $1,662,000 for the three months ended March 31, 2023.

NON-GAAP MEASURES

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

	Three Months Ended March 31,	
	2024	**2023**
Net income (loss)	$ (6,711,460)	$ (8,405,970)
Interest expense, net	8,722,637	7,134,789
Income taxes	3,945,000	1,662,000
Depreciation & Amortization	253,581	319,277
Depreciation and amortization included in cost of goods sold	584,958	734,087
EBITDA (non-GAAP)	$ 6,794,716	$ 1,444,183

Liquidity, Financing Activities During the Period, and Capital Resources

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

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

Credit Facility

During 2017 the Company signed a promissory note payable in the amount of $1,010,000. The note bears interest at a rate of 15% per annum with interest payments required on a monthly basis. In 2019 the Company's promissory note payable in the amount of $1,010,000 was modified to increase the amount payable to $1,110,000. The Company repaid the note in full during the three months ended March 31, 2024.

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 ("PIK") 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 the three months ended March 31, 2024 and 2023.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 PIK 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 March 31, 2024, $201,015 (December 31, 2023 - $1,524,531) of deferred financing costs remain unamortized.

Convertible Notes

On April 28, 2023, the Company closed on a new convertible debt facility which enables the Company to access up to $10,000,000 in aggregate principal amount of convertible notes (the "Convertible Notes"). The convertible facility has a term of three years, with an annual interest rate of 12.0%, comprised of 6.0% cash and 6.0% PIK. The initial tranche's principal amount of Convertible Notes outstanding in the amount of $2,000,000, plus all PIK 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 PIK 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. 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 March 31, 2024 $967,587 (December 31, 2023 - $1,083,697) of deferred financing costs remain unamortized.

Cash Used in Operating Activities

Net cash used in operating activities was $1.2 million for the three months ended March 31, 2024, a decrease of $2.6 million as compared to $3.8 million for the three months ended March 31, 2023. The decrease is primarily attributed to increased gross profit.

Cash Used in Investing Activities

Net cash used in investing activities was $1.0 million for the three months ended March 31, 2024, an increase of $0.3 million compared to net cash used in investing activities of $0.7 million for the three months ended March 31, 2023. The increase is primarily attributable to increased property, plant, and equipment additions relative to the prior year quarter.

Cash Used in Financing Activities

Net cash used in financing activities was $1.1 million for the three months ended March 31, 2024, a change of $0.8 million as compared to $0.3 million used in financing activities in the three months ended March 31, 2023. The change was principally due to repayment of a $1.0 million promissory note during the three months ended March 31, 2024.

Lease Transactions

As of March 31, 2024, we have entered into lease agreements for the use of buildings used in cultivation, production and/or sales of cannabis products in Maryland, Minnesota, and New York.

The lease agreements for all of the retail space used for our dispensary operations are with third-party landlords and remaining duration ranges from 1 to 6 years. These agreements are short-term facility leases that require us to make monthly rent payments as well as funding common area costs, utilities and maintenance. In some cases, we have received tenant improvement funds to assist in the buildout of the space to meet our operating needs. As of March 31, 2024, we operated 14 retail locations secured under these agreements.

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

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

	Operating Leases March 31, 2024	Finance Leases March 31, 2024	Total
2023	$ 1,673,583	$ 10,183,227	$ 11,856,810
2024	3,047,603	13,773,155	16,820,758
2025	2,727,346	14,183,661	16,911,007
2026	2,474,144	14,606,527	17,080,671
2027	2,254,049	15,042,128	17,296,177
Thereafter	7,824,515	218,572,918	226,397,433
Total minimum lease payments	$ 20,001,240	$ 286,361,616	$ 306,362,856
Less discount to net present value	(4,750,354)	(192,721,556)	(197,471,910)
Less liabilities held for sale	(3,096,598)	(85,276,482)	(88,373,080)
Present value of lease liability	$ 12,154,288	$ 8,363,578	$ 20,517,866

ADDITIONAL INFORMATION

Outstanding Share Data

As of May 3, 2024, we had 111,362,081 shares issued and outstanding, consisting of the following:

(a) Subordinate voting shares

111,041,230 shares issued and outstanding. The holders of subordinate voting shares are entitled to receive dividends which may be declared from time to time and are entitled to one vote per share at all shareholder meetings. All subordinate voting shares are ranked equally with regards to the Company's residual assets. The Company is authorized to issue an unlimited number of no-par value subordinate voting shares.

(b) Multiple voting shares

320,851 shares issued and outstanding. The holders of multiple voting shares are entitled to one hundred votes per share at all shareholder meetings. Each multiple voting share is exchangeable for one hundred subordinate voting shares. The Company is authorized to issue an unlimited number of multiple voting shares.

Options, Warrants, and Convertible Promissory Notes

As of March 31, 2024, we had 29,945,511 employee stock options outstanding, 2,543,011 RSUs outstanding, 3,037,649 Subordinate Voting Share compensation warrants denominated in C$ related to financing activities, and 16,400,000 Subordinate Voting Share compensation warrants outstanding.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Annual Report on Form 10-K for the year ended December 31, 2023, as amended.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the appropriate time periods, and that such information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure. We, under the supervisions of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2024, and, based on that evaluation, have concluded that the design and operation of our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.