

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

**VIREO GROWTH INC.
CONSOLIDATED BALANCE SHEETS
(In U.S Dollars, unaudited)**

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash	\$ 11,229,297	\$ 15,964,665
Accounts receivable, net of credit losses of \$230,624 and \$254,961, respectively	2,260,137	3,086,640
Income tax receivable	12,261,964	12,278,119
Inventory	20,092,498	19,285,870
Prepayments and other current assets	771,186	1,336,234
Notes receivable, current	3,750,000	3,750,000
Warrants held	4,867,643	1,937,352
Assets Held for Sale	93,401,886	91,213,271
Total current assets	<u>148,634,611</u>	<u>148,852,151</u>
Property and equipment, net	26,261,755	23,291,183
Operating lease, right-of-use asset	10,941,864	2,018,163
Intangible assets, net	8,308,953	8,718,577
Deposits	533,745	383,645
Total assets	<u>\$ 194,680,928</u>	<u>\$ 183,263,719</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 9,176,236	\$ 7,674,389
Long-Term debt, current portion	61,502,285	60,220,535
Right of use liability	953,389	890,013
Uncertain tax liability	26,726,000	22,356,000
Liabilities held for sale	88,414,795	88,326,323
Total current liabilities	<u>186,772,705</u>	<u>179,467,260</u>
Right-of-use liability	19,466,941	10,543,934
Other long-term liabilities	196,598	155,917
Convertible debt, net	9,682,176	9,140,257
Long-Term debt, net	1,121,306	—
Total liabilities	<u>217,239,726</u>	<u>199,307,368</u>
Commitments and contingencies (refer to Note 17)		
Stockholders' deficiency		
Subordinate Voting Shares (\$- par value, unlimited shares authorized; 114,605,008 shares issued and outstanding at June 30, 2024 and 110,007,030 at December 31, 2023)	—	—
Multiple Voting Shares (\$- par value, unlimited shares authorized; 300,714 shares issued and outstanding at June 30, 2024 and 331,193 at December 31, 2023)	—	—
Super Voting Shares (\$- par value; unlimited shares authorized; 0 shares issued and outstanding at June 30, 2024 and December 31, 2023)	—	—
Additional Paid in Capital	188,249,124	187,384,403
Accumulated deficit	(210,807,922)	(203,428,052)
Total stockholders' deficiency	<u>\$ (22,558,798)</u>	<u>\$ (16,043,649)</u>
Total liabilities and stockholders' deficiency	<u>\$ 194,680,928</u>	<u>\$ 183,263,719</u>

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

VIREO GROWTH INC.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
(In U.S. Dollars, except share amounts, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue	\$ 25,108,247	\$ 20,196,556	\$ 49,195,562	\$ 39,284,980
Cost of sales				
Product costs	11,516,604	10,275,584	23,663,492	19,853,795
Inventory valuation adjustments	41,000	589,676	(263,000)	579,676
Gross profit	<u>13,550,643</u>	<u>9,331,296</u>	<u>25,795,070</u>	<u>18,851,509</u>
Operating expenses:				
Selling, general and administrative	7,564,231	8,059,427	14,615,844	15,216,262
Stock-based compensation expenses	(60,568)	2,037,204	119,221	3,712,798
Depreciation	72,925	117,681	146,471	277,191
Amortization	180,033	159,028	360,067	318,794
Total operating expenses	<u>7,756,621</u>	<u>10,373,340</u>	<u>15,241,603</u>	<u>19,525,045</u>
Income (loss) from operations	<u>5,794,022</u>	<u>(1,042,044)</u>	<u>10,553,467</u>	<u>(673,536)</u>
Other income (expense):				
Gain (loss) on disposal of assets	(97,471)	(2,747,881)	(218,327)	(2,747,881)
Interest expenses, net	(7,518,454)	(7,744,794)	(16,241,091)	(14,879,584)
Other income (expenses)	1,593,492	5,798,335	2,911,081	5,820,648
Other income (expenses), net	<u>(6,022,433)</u>	<u>(4,694,340)</u>	<u>(13,548,337)</u>	<u>(11,806,817)</u>
Loss before income taxes	(228,411)	(5,736,384)	(2,994,870)	(12,480,353)
Current income tax expenses	(440,000)	(1,652,871)	(4,385,000)	(3,377,871)
Deferred income tax recoveries	—	60,000	—	123,000
Net loss and comprehensive loss	<u>(668,411)</u>	<u>(7,329,255)</u>	<u>(7,379,870)</u>	<u>(15,735,224)</u>
Net loss per share - basic and diluted	\$ (0.00)	\$ (0.06)	\$ (0.05)	\$ (0.12)
Weighted average shares used in computation of net loss per share - basic and diluted	143,583,496	128,126,330	143,354,913	128,126,330

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

VIREO GROWTH INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
(In U.S. Dollars, except share amounts, unaudited)

	Common Stock						Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (deficiency)
	SVS		MVS		Super Voting Shares				
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, January 1, 2023	86,721,030	\$ —	348,642	\$ —	65,411	\$ —	\$ 181,321,847	\$(177,880,963)	\$ 3,440,884
Stock-based compensation	—	—	—	—	—	—	2,464,574	—	2,464,574
Warrants issued in financing activities	—	—	—	—	—	—	497,055	—	497,055
Obligation to issue shares	—	—	—	—	—	—	1,407,903	—	1,407,903
Net Loss	—	—	—	—	—	—	—	(15,735,224)	(15,735,224)
Balance at June 30, 2023	<u>86,721,030</u>	<u>\$ —</u>	<u>348,642</u>	<u>\$ —</u>	<u>65,411</u>	<u>\$ —</u>	<u>\$ 185,691,379</u>	<u>\$(193,616,187)</u>	<u>\$ (7,924,808)</u>
Balance, January 1, 2024	110,007,030	—	331,193	—	—	—	187,384,403	(203,428,052)	(16,043,649)
Conversion of MVS shares	3,047,900	—	(30,479)	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	119,221	—	119,221
Options exercised	50,000	—	—	—	—	—	16,500	—	16,500
Warrants exercised	200,000	—	—	—	—	—	29,000	—	29,000
Shares issued	1,300,078	—	—	—	—	—	700,000	—	700,000
Net Loss	—	—	—	—	—	—	—	(7,379,870)	(7,379,870)
Balance at June 30, 2024	<u>114,605,008</u>	<u>\$ —</u>	<u>300,714</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 188,249,124</u>	<u>\$(210,807,922)</u>	<u>\$ (22,558,798)</u>
	Common Stock						Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (deficiency)
	SVS		MVS		Super Voting Shares				
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, April 1, 2023	86,721,030	\$ —	348,642	\$ —	65,411	\$ —	\$ 184,219,278	\$(186,286,932)	\$ (2,067,654)
Stock-based compensation	—	—	—	—	—	—	788,980	—	788,980
Obligation to issue shares	—	—	—	—	—	—	186,066	—	186,066
Warrants issued in financing activities	—	—	—	—	—	—	497,055	—	497,055
Net Loss	—	—	—	—	—	—	—	(7,329,255)	(7,329,255)
Balance at June 30, 2023	<u>86,721,030</u>	<u>\$ —</u>	<u>348,642</u>	<u>\$ —</u>	<u>65,411</u>	<u>\$ —</u>	<u>\$ 185,691,379</u>	<u>\$(193,616,187)</u>	<u>\$ (7,924,808)</u>
Balance, April 1, 2024	111,041,230	\$ —	320,851	\$ —	—	\$ —	187,564,192	(210,139,511)	(22,575,319)
Conversion of MVS shares	2,013,700	—	(20,137)	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	(60,568)	—	(60,568)
Options exercised	50,000	—	—	—	—	—	16,500	—	16,500
Warrants exercised	200,000	—	—	—	—	—	29,000	—	29,000
Shares issued	1,300,078	—	—	—	—	—	700,000	—	700,000
Net Loss	—	—	—	—	—	—	—	(668,411)	(668,411)
Balance at June 30, 2024	<u>114,605,008</u>	<u>\$ —</u>	<u>300,714</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 188,249,124</u>	<u>\$(210,807,922)</u>	<u>\$ (22,558,798)</u>

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

VIREO GROWTH INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. Dollars, unaudited)

	For the Six Months Ended June 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (7,379,870)	\$ (15,735,224)
Adjustments to reconcile net loss to net cash used in operating activities:		
Inventory valuation adjustments	(263,000)	579,676
Depreciation	146,471	277,191
Depreciation capitalized into inventory	1,121,141	1,294,065
Non-cash operating lease expense	211,319	327,692
Amortization of intangible assets	360,067	318,794
Amortization of intangible assets capitalized into inventory	49,557	—
Stock-based payments	119,221	3,712,798
Warrants receivable	—	(1,248,224)
Warrants held	(2,930,291)	—
Interest Expense	2,916,255	3,223,635
Deferred income tax	—	(123,000)
Accretion	108,902	593,063
Loss on disposal of Red Barn Growers	—	2,909,757
Loss (gain) on disposal of assets	120,856	(161,727)
Change in operating assets and liabilities:		
Accounts Receivable	842,353	(60,197)
Prepaid expenses	565,048	608,486
Inventory	(407,734)	(1,737,376)
Income taxes	16,154	592,427
Uncertain tax position liabilities	4,370,000	—
Accounts payable and accrued liabilities	1,215,694	2,557,998
Changes in operating lease liabilities	(281,874)	—
Change in assets and liabilities held for sale	(2,100,143)	(91,247)
Net cash provided by (used in) operating activities	<u>(1,199,874)</u>	<u>(2,161,413)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
PP&E Additions	(4,088,734)	(2,478,645)
Proceeds from sale of Red Barn Growers net of cash	—	439,186
Proceeds from sale of property, plant, and equipment	—	125,000
Deposits	(150,100)	(260,545)
Net cash provided by (used in) investing activities	<u>(4,238,834)</u>	<u>(2,175,004)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt, net of issuance costs	1,131,400	—
Proceeds from convertible debt, net of issuance costs	—	3,497,462
Proceeds from issuance of shares	700,000	—
Proceeds from warrant exercises	29,000	—
Proceeds from option exercises	16,500	—
Debt principal payments	(1,062,000)	(1,976,362)
Lease principal payments	(111,560)	(987,953)
Net cash provided by (used in) financing activities	<u>703,340</u>	<u>533,147</u>
Net change in cash	(4,735,368)	(3,803,270)
Cash, beginning of period	15,964,665	15,149,333
Cash, end of period	<u>\$ 11,229,297</u>	<u>\$ 11,346,063</u>

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

VIREO GROWTH INC.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Description of Business and Summary

Vireo Growth Inc. (“**Vireo Growth**” or the “**Company**”) (formerly, “Goodness Growth Holdings, 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 “GDNS”. On July 8, 2024, the Company changed its name to Vireo Growth Inc., its ticker symbol on the CSE to “VREO” and its ticker symbol on the OTCQX to “VREOF.”

Vireo 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. Vireo 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 Vireo 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 Vireo 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, Vireo 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. Vireo 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, Vireo 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.

On May 2, 2024, the Company filed an application with the Supreme Court of British Columbia for summary determination. The Company is seeking substantial damages, specifically \$860.9 million, as well as other costs and legal fees, based on Verano's breach of contract and of its duty of good faith and honest performance.

Due to uncertainties inherent in litigation, it is not possible for Vireo Growth to predict the timing or final outcome of the legal proceedings against Verano or to determine the amount of damages, if any, that may be awarded.

The termination of the Arrangement Agreement gives rise to substantial doubt about the Company's ability to 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 a going concern is dependent on its future profitability and implementation of the aforementioned plan. The Company may not be successful in these efforts.

2. Summary of Significant Accounting Policies

Significant Accounting Policies

The Company's significant accounting policies are described in Note 2 to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2023, filed with the United States Securities and Exchange Commission ("SEC") on April 1, 2024, (the "**Annual Financial Statements**"), as amended on April 29, 2024. There have been no material changes to the Company's significant accounting policies.

Basis of presentation

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

Basis of consolidation

These unaudited condensed consolidated financial statements include the accounts of the following entities wholly owned, or effectively controlled by the Company during the period ended June 30, 2024:

<u>Name of entity</u>	<u>Place of incorporation</u>
EHF Cultivation Management, LLC	Arizona, USA
Elephant Head Farm, LLC	Arizona, USA
HiColor, LLC	Minnesota, USA
MaryMed, LLC	Maryland, USA
Mayflower Botanicals, Inc.	Massachusetts, USA
Minnesota Medical Solutions, LLC	Minnesota, USA
MJ Distributing C201, LLC	Nevada, USA
MJ Distributing P132, LLC	Nevada, USA
Resurgent Biosciences, Inc.	Delaware, USA
Retail Management Associates, LLC	Arizona, USA
Verdant Grove, Inc.	Massachusetts, USA
Vireo Health de Puerto Rico, Inc.	Puerto Rico
Vireo Health of Nevada 1, LLC	Nevada, USA
Vireo Health of New Mexico, LLC	Delaware, USA
Vireo Health of New York, LLC	New York, USA
Vireo Health of Puerto Rico, LLC	Delaware, USA
Vireo Health, Inc.	Delaware, USA
Vireo of Charm City, LLC	Maryland, USA
XAAS Agro, Inc.	Puerto Rico

The entities listed are wholly owned or effectively controlled by the Company and have been formed or acquired to support the intended operations of the Company, and all intercompany transactions and balances have been eliminated in the Company's unaudited condensed consolidated financial statements. Red Barn Growers, Inc. and all New Mexico assets and liabilities were divested in June of 2023.

Recently adopted accounting pronouncements

None.

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 restricted stock units.

In computing diluted earnings per share, common share equivalents are not considered in periods in which a net loss is reported, as the inclusion of the common share equivalents would be anti-dilutive. The Company recorded a net loss for the three and six month periods ended June 30, 2024, and 2023, presented in these financial statements, and as such there is no difference between the Company's basic and diluted net loss per share for these periods.

The anti-dilutive shares outstanding for the six month periods ended June 30, 2024, and 2023 were as follows:

	June 30,	
	2024	2023
Stock options	29,843,198	30,185,610
Warrants	19,237,649	9,437,649
RSUs	2,500,916	3,102,765
Convertible debt	72,645,878	27,756,593
Total	<u>124,227,640</u>	<u>70,482,617</u>

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 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Retail	\$20,819,019	\$17,143,099	\$40,418,459	\$33,614,899
Wholesale	4,289,228	3,053,457	8,777,103	5,670,081
Total	<u>\$25,108,247</u>	<u>\$20,196,556</u>	<u>\$49,195,562</u>	<u>\$39,284,980</u>

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. The Company has not adopted the standard for the interim periods presented herein, but will adopt the standard on or before December 31, 2024. 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. Business Combinations and Dispositions

Assets Held for Sale

As of June 30, 2024, 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 these net assets did not exceed fair value less expected cost to sell, and as such, the Company recorded no impairment loss. Assets and liabilities held for sale are as follows:

Assets held for sale	June 30, 2024	December 31, 2023
Property and equipment	\$ 87,962,541	\$ 86,864,965
Intangible assets	662,500	662,500
Operating lease, right-of-use asset	3,381,612	3,381,612
Deposits	1,395,233	304,194
Total assets held for sale	<u>\$ 93,401,886</u>	<u>\$ 91,213,271</u>
Liabilities held for sale		
Right of Use Liability	\$ 88,414,795	\$ 88,326,323
Total liabilities held for sale	<u>\$ 88,414,795</u>	<u>\$ 88,326,323</u>

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 \$7,757,409 for the six months ended June 30, 2024.

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 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. No indicators of impairment existed as of June 30, 2024, and therefore no impairment charges were recorded.

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, long-term debt, and convertible debt approximates fair value as they bear a market rate of interest.

The carrying value of the Company’s warrants held utilize Level 3 inputs given there is no market activity for the asset. The inputs used are further described in Note 19.

5. Accounts Receivable

Trade receivables are comprised of the following items:

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Trade receivable	\$1,947,458	\$2,256,763
Tax withholding receivable	174,660	174,660
Other	138,019	655,217
Total	<u>\$2,260,137</u>	<u>\$3,086,640</u>

Included in the trade receivables, net balance at June 30, 2024, and December 31, 2023, is an allowance for doubtful accounts of \$71,349 and \$95,686, respectively. Included in the tax withholding receivable, net balance at June 30, 2024, and December 31, 2023, is an allowance for doubtful accounts of \$159,275.

6. Inventory

Inventory is comprised of the following items:

	<u>June 30 2024</u>	<u>December 31, 2023</u>
Work-in-progress	\$13,188,031	\$13,058,348
Finished goods	5,906,445	5,278,331
Other	998,022	949,191
Total	<u>\$20,092,498</u>	<u>\$19,285,870</u>

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:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Work-in-progress	\$ (13,500)	\$ 540,967	\$ (201,700)	\$ 556,039
Finished goods	54,500	48,709	(61,300)	23,637
Total	<u>\$ 41,000</u>	<u>\$ 589,676</u>	<u>\$ (263,000)</u>	<u>\$ 579,676</u>

7. Prepayments and other current assets

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

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Prepaid Insurance	\$ 356,454	\$ 806,610
Other Prepaid Expenses	414,732	529,624
Total	<u>\$ 771,186</u>	<u>\$1,336,234</u>

8. Property and Equipment, Net

Property and equipment, net consisted of the following:

	<u>June 30 2024</u>	<u>December 31, 2023</u>
Land	\$ 863,105	\$ 863,105
Buildings and leasehold improvements	15,339,998	15,124,915
Furniture and equipment	7,098,616	7,807,250
Software	39,388	242,204
Vehicles	288,938	284,000
Construction-in-progress	4,109,949	128,220
Right of use asset under finance lease	7,938,138	7,938,138
	<u>35,678,132</u>	<u>32,387,832</u>
Less: accumulated depreciation	<u>(9,416,377)</u>	<u>(9,096,649)</u>
Total	<u>\$26,261,755</u>	<u>\$23,291,183</u>

For the six months ended June 30, 2024, and 2023, total depreciation on property and equipment was \$1,267,612 and \$1,571,256, respectively. For the six months ended June 30, 2024, and 2023, accumulated amortization of the right of use asset under finance lease amounted to \$2,651,438 and \$2,077,675, respectively. The right of use asset under finance lease of \$7,938,138 consists of leased processing and cultivation premises. The Company capitalized into inventory \$1,121,141 and \$1,294,065 relating to depreciation associated with manufacturing equipment and production facilities for the six months ended June 30, 2024, and 2023, respectively. The capitalized depreciation costs associated are added to inventory and expensed through Cost of Sales Product Cost on the unaudited condensed consolidated statements of net loss and comprehensive loss.

As of June 30, 2024, in conjunction with the Company's held for sale assessment and disposal of certain long-lived assets, the Company evaluated whether property and equipment showed any indicators of impairment, and it was determined that the recoverable amount of certain net assets was above book value. As a result, the Company recorded no impairment charge (2023 - \$0) on property and equipment, net.

9. Leases

Components of lease expenses are listed below:

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Finance lease cost		
Amortization of ROU assets	\$ 286,882	\$ 414,376
Interest on lease liabilities	7,095,154	5,566,631
Operating lease costs	<u>924,929</u>	<u>1,060,043</u>
Total lease costs	<u>\$8,306,965</u>	<u>\$7,041,050</u>

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

	Operating Leases	Finance Leases	
	June 30, 2024	June 30, 2024	Total
2024	\$ 1,120,387	\$ 6,780,539	\$ 7,900,926
2025	3,047,603	13,773,155	16,820,758
2026	2,727,346	14,183,661	16,911,007
2027	2,474,144	14,606,527	17,080,671
2028	2,254,049	15,042,128	17,296,177
Thereafter	7,824,515	218,572,918	226,397,433
Total minimum lease payments	<u>\$ 19,448,044</u>	<u>\$ 282,958,928</u>	<u>\$ 302,406,972</u>
Less discount to net present value	(4,402,521)	(189,169,326)	(193,571,847)
Less liabilities held for sale	(2,970,335)	(85,444,460)	(88,414,795)
Present value of lease liability	<u>\$ 12,075,188</u>	<u>\$ 8,345,142</u>	<u>\$ 20,420,330</u>

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

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 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.

Supplemental cash flow information related to leases:

	June 30,	
	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Lease principal payments - finance	\$ 111,560	\$ 987,953
Lease principal payments - operating	281,874	—
Non-cash additions to ROU assets	9,270,915	4,054,328
Amortization of operating leases	577,715	512,880

Other information about lease amounts recognized in the financial statements:

	June 30,	
	2024	2023
Weighted-average remaining lease term (years) – operating leases	7.96	4.70
Weighted-average remaining lease term (years) – finance leases	16.58	17.43
Weighted-average discount rate – operating leases	8.35 %	15.00 %
Weighted-average discount rate – finance leases	16.20 %	15.27 %

10. Goodwill

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

Goodwill - December 31, 2022	\$ 183,836
Divestitures (<i>Note 3</i>)	<u>(183,836)</u>
Goodwill - December 31, 2023 and June 30, 2024	<u>\$ —</u>

The Company has no goodwill as of June 30, 2024. As such, no further impairment testing procedures were performed.

11. Intangibles

Intangible assets are comprised of the following items:

	Licenses & Trademarks
Balance, December 31, 2022	\$ 8,776,946
Divestitures	(409,239)
Additions	1,090,919
Amortization	(728,419)
Write off	<u>(11,630)</u>
Balance, December 31, 2023	\$ 8,718,577
Amortization	<u>(409,624)</u>
Balance, June 30, 2024	<u>\$ 8,308,953</u>

Amortization expense for intangibles was \$204,812 and \$409,624 during the three and six months ended June 30, 2024, respectively, and \$159,028 and \$318,794 during the three and six months ended June 30, 2023, respectively. The Company capitalized into inventory \$24,779 (2023 - \$0) and \$49,557 (2023 - \$0) of amortization for the three and six months ended June 30, 2024, respectively. Amortization expense is recorded in operating expenses on the unaudited condensed consolidated statements of net loss and comprehensive loss.

The Company estimates that amortization expense will be \$819,655 per year for the next five fiscal years.

12. Accounts Payable and Accrued Liabilities

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

	June 30, 2024	December 31, 2023
Accounts payable – trade	\$ 3,786,701	\$ 1,769,346
Accrued Expenses	4,388,396	4,852,648
Taxes payable	179,378	218,563
Contract liability	<u>821,761</u>	<u>833,832</u>
Total accounts payable and accrued liabilities	<u>\$ 9,176,236</u>	<u>\$ 7,674,389</u>

13. 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 repaid the note in full during the six months ended June 30, 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 six months ended June 30, 2024 and 2023.

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, Vireo 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.

On May 1, 2024, The Company executed a short-term extension of the maturity date on the Credit Facility with the Agent. The Credit Facility was extended until June 14, 2024, matching all other terms of the existing agreement. On June 14, 2024, another short-term extension was executed which extended the maturity date on the Credit Facility to July 31, 2024, matching all other terms of the existing agreement.

On May 21, 2024 the Company executed a \$1,200,000 term loan with the Agent to assist with the purchase of a site for a new dispensary location. The loan bears an interest rate of 12.0% and is due on May 28, 2027. Financing costs of \$68,600 were incurred in connection with the closing of the loan.

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 June 30, 2024, \$66,694 (December 31, 2023 - \$1,524,531) of deferred financing costs remain unamortized.

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

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Beginning of period	\$60,220,535	\$58,028,604
Proceeds	1,200,000	—
Principal repayments	(1,062,000)	(2,976,362)
Deferred financing costs	(68,600)	(1,407,903)
PIK interest	807,219	1,607,032
Amortization of deferred financing costs	1,526,437	4,969,164
End of period	<u>62,623,591</u>	<u>60,220,535</u>
Less: current portion	61,502,285	60,220,535
Total long-term debt	<u>\$ 1,121,306</u>	<u>\$ —</u>

As of June 30, 2024, stated maturities of long-term debt were as follows:

2024	\$ 61,502,285
2025	—
2026	—
2027	1,121,306
Total	<u>\$ 62,623,591</u>

14. 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 PIK 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 June 30, 2024, \$851,477 (December 31, 2023 - \$1,083,697) of deferred financing costs remain unamortized.

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

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Beginning of period	\$ 9,140,257	\$ —
Proceeds	—	10,000,000
Deferred financing costs	—	(1,346,793)
PIK interest	309,698	223,954
Amortization of deferred financing costs	232,221	263,096
End of period	<u>\$ 9,682,176</u>	<u>9,140,257</u>
Less: current portion	—	—
Total convertible debt	<u>\$ 9,682,176</u>	<u>\$ 9,140,257</u>

15. Stockholders’ Equity

Shares

The Company’s certificate of incorporation authorized the Company to issue the following classes of shares with the following par value and voting rights as of June 30, 2024. The liquidation and dividend rights are identical among shares equally in the Company’s earnings and losses on an as converted basis.

	<u>Par Value</u>	<u>Authorized</u>	<u>Voting Rights</u>
Subordinate Voting Share (“SVS”)	—	Unlimited	1 vote for each share
Multiple Voting Share (“MVS”)	—	Unlimited	100 votes for each share
Super Voting Share	—	Unlimited	1,000 votes for each share

Subordinate Voting Shares

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

Multiple Voting Shares

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

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

Super Voting Shares

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

Shares Issued

During the six months ended June 30, 2024, 30,479 Multiple Voting Shares were converted into 3,047,900 Subordinate Voting Shares for no additional consideration.

During the six months ended June 30, 2024, 1,300,078 Subordinate Voting Shares were issued to the Company’s senior secured lender, Chicago Atlantic Opportunity Portfolio, LP, for \$700,000 of proceeds.

During the six months ended June 30, 2024, employee stock options were exercised for 50,000 Subordinate Voting Shares. Proceeds from this transaction were \$16,500.

During the six months ended June 30, 2024, stock warrants were exercised for 200,000 Subordinate Voting Shares. Proceeds from these transactions were \$29,000.

16. Stock-Based Compensation

Stock Options

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

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

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Risk-Free Interest Rate	4.49 %	3.84 %
Weighted Average Exercise Price	\$ 0.54	\$ 0.25
Weighted Average Stock Price	\$ 0.54	\$ 0.25
Expected Life of Options (years)	7.00	6.12
Expected Annualized Volatility	100.00 %	100.00 %
Grant Fair Value	\$ 0.45	\$ 0.13
Expected Forfeiture Rate	N/A	N/A
Expected Dividend Yield	N/A	N/A

Stock option activity for the six months ended June 30, 2024, and for the year ended December 31, 2023, is presented below:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Avg. Remaining Life</u>
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
Balance, December 31, 2023	29,969,324	\$ 0.50	6.18
Forfeitures	(616,126)	0.79	—
Exercised	(50,000)	0.33	—
Granted	540,000	0.54	—
Options Outstanding at June 30, 2024	<u>29,843,198</u>	<u>\$ 0.49</u>	<u>5.72</u>
Options Exercisable at June 30, 2024	<u>25,427,087</u>	<u>\$ 0.42</u>	<u>5.30</u>

During the three and six month periods ended June 30, 2024, the Company recognized (\$60,751) and \$25,981 in stock-based compensation relating to stock options, respectively. During the three and six month periods ended June 30, 2023, the Company recognized \$600,377 and \$1,999,635 in stock-based compensation relating to stock options, respectively. As of June 30, 2024, the total unrecognized compensation costs related to unvested stock options awards granted was \$647,705. In addition, the weighted average period over which the unrecognized compensation expense is expected to be recognized is approximately 1.6 years. The total intrinsic value of stock options outstanding and exercisable as of June 30, 2024, was \$4,574,605 and \$4,108,845, 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.

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, 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
Granted	—	—	—
Exercised	(200,000)	0.145	—
Warrants outstanding at June 30, 2024	<u>16,200,000</u>	<u>\$ 0.21</u>	<u>4.07</u>
Warrants exercisable at June 30, 2024	16,200,000	\$ 0.21	4.07
SVS Warrants Denominated in CS	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life
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
Granted	—	—	—
Warrants outstanding at June 30, 2024	<u>3,037,649</u>	<u>\$ 3.50</u>	<u>1.73</u>
Warrants exercisable at June 30, 2024	<u>3,037,649</u>	<u>\$ 3.50</u>	<u>1.73</u>

During both the three and six month periods ended June 30, 2024, \$0 (2023 - \$1,248,224) in stock-based compensation expense was recorded in connection with outstanding warrants.

Restricted Stock Units ("RSUs")

The expense associated with RSUs is based on the closing share 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 three and six months ended June 30, 2024, the Company recognized \$183 and \$93,240, respectively, in stock-based compensation expense related to RSUs. During the three and six month periods ended June 30, 2023, the Company recognized \$188,603 and \$464,939, respectively, in stock-based compensation expense related to RSUs.

A summary of RSUs is as follows:

	<u>Number of Shares</u>	<u>Weighted Avg. Fair Value</u>
Balance, December 31, 2022	3,221,677	\$ 0.81
Forfeitures	(678,666)	0.54
Balance, December 31, 2023	2,543,011	0.88
Granted	121,625	0.41
Forfeitures	(163,720)	0.54
Balance, June 30, 2024	<u>2,500,916</u>	<u>0.88</u>
Vested at June 30, 2024	<u>1,025,253</u>	<u>\$ 0.95</u>

17. Commitments and Contingencies

Legal proceedings

Schneyer

On February 25, 2019, Dr. Mark Schneyer (“**Schneyer**”) filed a lawsuit in Minnesota District Court, Fourth District (the “**Court**”), on his own behalf and, derivatively, on behalf of Dorchester Capital, LLC, naming Vireo Health, Inc. (“**Vireo U.S.**”), Dorchester Management, LLC (“**Dorchester Management**”), and Dorchester Capital, LLC (“**Capital**”), as defendants. The essence of the claims made by Schneyer is Vireo U.S. paid an inadequate price for MaryMed, LLC (“**MaryMed**”), which it purchased 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. Shimp, 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 Vireo 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 Vireo 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, Vireo 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. Vireo 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, Vireo 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.

On May 2, 2024 the Company filed an application with the Supreme Court of British Columbia for summary determination. The Company is seeking substantial damages, specifically US \$860.9 million, as well as other costs and legal fees, based on Verano's breach of contract and of its duty of good faith and honest performance.

Due to uncertainties inherent in litigation, it is not possible for Vireo 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.

18. Selling, General and Administrative Expenses

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Salaries and benefits	\$3,666,392	\$3,865,517	\$ 7,179,128	\$ 7,662,927
Professional fees	1,871,585	1,696,559	3,298,681	2,586,726
Insurance expenses	409,085	676,049	978,270	1,311,488
Marketing	189,946	227,068	411,960	452,181
Other expenses	1,427,223	1,594,234	2,747,805	3,202,940
Total	\$7,564,231	\$8,059,427	\$14,615,844	\$15,216,262

19. Other Income (Expense)

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 applied for and received the tax credit under the CARES Act. During the three and six months ended June 30, 2024, the Company recorded and received

\$0 (2023 - \$4,650,264) related to the CARES Employee Retention credit in other income on the unaudited condensed consolidated statement of loss and comprehensive loss for the three and six months ended June 30, 2024 and 2023.

On May 25, 2023, the Company and Grown Rogue International, Inc. (“Grown Rogue”) entered into a strategic agreement whereby Grown Rogue will support Vireo 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 on October 5, 2023. These warrants were valued at \$4,867,643 on June 30, 2024 using a stock price of \$0.65, an exercise price of \$0.164, an expected life of 4.27 years, an annual risk free rate of 4.33%, and volatility of 100%. The change in fair value for the three and six months ended June 30, 2024, of \$1,602,412 and \$2,930,291, respectively, was recorded as other income in the unaudited condensed consolidated statement of loss and comprehensive loss for the three and six months ended June 30, 2024.

20. Supplemental Cash Flow Information⁽¹⁾

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Cash paid for interest	\$ 13,584,622	\$ 12,003,729
Cash paid for income taxes	—	1,055,235
Change in construction accrued expenses	(286,156)	8,211,272

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

21. Financial Instruments

Credit risk

Credit risk is the risk of loss associated with counterparty’s inability to fulfill its payment obligations. The Company’s credit risk is primarily attributable to cash, accounts receivable, and notes receivable. A small portion of cash is held on hand, from which management believes the risk of loss is remote. 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 Maryland, Minnesota, and New York with respect to cultivating, processing, and/or distributing marijuana. Presently, this industry is illegal under United States federal law. The Company has adhered, and intends to continue to adhere, strictly to the applicable state statutes in its operations.

Liquidity risk

The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of June 30, 2024, the Company’s financial liabilities consist of accounts payable, accrued liabilities, debt, convertible debt, liabilities held for sale, and uncertain tax liabilities. 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 or debt financing.

Legal Risk

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

marijuana is largely regulated at the state level. State laws regulating cannabis are in direct conflict with the federal Controlled Substances Act, which makes cannabis use and possession federally illegal.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. Given the Company's financial transactions are rarely denominated in a foreign currency, there is minimal foreign currency risk exposure.

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 three months ended June 30, 2024, would have resulted in a corresponding change in the statement of loss and comprehensive loss of \$278,099.

22. Related Party Transactions

As of June 30, 2024, and December 31, 2023, there were \$0 and \$121,846 due to related parties, respectively.

23. Subsequent Events

On July 1, 2024, the Company received \$3,600,000 in proceeds related to the repayment of the outstanding current note receivable of \$3,750,000. The \$3,750,000 note receivable was consideration received from Jushi Holdings, Inc. ("Jushi") in connection with the divestiture of the Company's Pennsylvania operations in 2020. The Company has relieved Jushi of any further liability, and considers the note receivable to be fully paid.

On July 31, 2024, the Company executed a ninth amendment to the Company's Green Ivy credit agreement with Chicago Atlantic and affiliates. The ninth amendment to the Company's credit agreement extends the maturity date on the credit facility loans to January 29, 2027, adjusts and extends the designated event of default with respect to the Company's ongoing disposition of its New York operations through July 31, 2025, and amends certain financial measure definitions and covenants within the agreement. The Company will issue 12,500,000 Subordinate Voting Shares to the lenders in consideration for the credit facility amendment.

On July 31, 2024, Chicago Atlantic notified the Company of its intent to voluntarily convert all outstanding convertible notes. The convertible loan carried an interest rate of 12.0 percent, and was convertible into equity shares of the Company at a strike price of US \$0.145. As a result of the conversion, Vireo will issue approximately 73,000,000 million Subordinate Voting Shares to Chicago Atlantic and its affiliates.