
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2023

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission File Number 000-55450

MEDICINE MAN TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
Incorporation or organization)

46-5289499
(I.R.S. Employer Identification No.)

4880 Havana Street
Suite 201
Denver, Colorado
(Address of principal executive offices)

80239
(Zip Code)

(303) 371-0387
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
None	None	None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer" "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 1, 2023, the Registrant had 70,590,451 shares of Common Stock outstanding.

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CAUTIONARY NOTE ABOUT FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, business strategy and plans, and objectives for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by the following words: “may,” “will,” “could,” “would,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “approximately,” “estimate,” “predict,” “project,” “potential,” “continue,” “ongoing,” “become,” “develop,” “build,” or the negative of these terms or other words of similar meaning in connection with a discussion of future events or future operating or financial performance, although the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements are based upon our current assumptions, expectations, and beliefs concerning future developments and their potential effect on our business. Forward-looking statements are subject to known and unknown risks, uncertainties, and other factors which may cause actual events or our actual results, performance, or achievements to be materially different from the future events, results, performance, or achievements expressed or implied by any forward-looking statements. There can be no assurance that future events, results, performance, or achievements will be in accordance with our expectations or that the effect of future events, results, performance, or achievements will be those anticipated by us.

Factors and risks that may cause or contribute to actual events, results, performance, or achievements differing from these forward-looking statements include, but are not limited to, for example:

- regulatory limitations on our products and services;
- our ability to identify, consummate, and integrate anticipated acquisitions;
- general industry and economic conditions;
- our ability to access adequate capital upon terms and conditions that are acceptable to us;
- our ability to pay interest and principal on outstanding debt when due;
- volatility in credit and market conditions; and
- other risks and uncertainties related to the cannabis market and our business strategy.

We operate in very competitive and rapidly changing markets. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Stockholders and potential investors should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions, and expectations reflected in or suggested by the forward-looking statements in this Quarterly Report on Form 10-Q are reasonable, we cannot assure stockholders and potential investors that these plans, intentions or expectations will be achieved.

These forward-looking statements represent our intentions, plans, expectations, assumptions, and beliefs about future events and are subject to risks, uncertainties, and other factors. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Considering these risks, uncertainties, and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You are cautioned not to place

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undue reliance on these forward-looking statements. All subsequent written and oral forward-looking statements concerning other matters addressed in this Quarterly Report on Form 10-Q and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Quarterly Report on Form 10-Q.

All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether because of new information, future events, a change in events, conditions, circumstances, or assumptions underlying such statements, or otherwise.

Part I. FINANCIAL INFORMATION
Item 1. Condensed Financial Statements

MEDICINE MAN TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Expressed in U.S. Dollars

	June 30, 2023	December 31, 2022
	(Unaudited)	(Audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 19,872,099	\$ 38,949,253
Accounts receivable, net of allowance for doubtful accounts	6,179,662	4,471,978
Inventory	33,821,282	22,554,182
Note receivable - current, net	—	11,944
Marketable securities, net of unrealized loss of \$1,816 and loss of \$39,270, respectively	456,099	454,283
Prepaid expenses and other current assets	6,203,056	5,293,393
Total current assets	66,532,198	71,735,033
Non-current assets		
Fixed assets, net accumulated depreciation \$7,007,889 and \$4,899,977, respectively	31,128,357	27,089,026
Investments	2,000,000	2,000,000
Goodwill	75,968,130	94,605,301
Intangible assets, net accumulated amortization of \$24,981,817 and \$16,290,862, respectively	168,892,605	107,726,718
Note receivable – noncurrent, net	1,313	—
Other noncurrent assets	1,222,805	1,527,256
Operating lease right of use assets	23,213,504	18,199,399
Total non-current assets	302,426,714	251,147,700
Total assets	<u>\$ 368,958,912</u>	<u>\$ 322,882,733</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 12,105,250	\$ 10,701,281
Accounts payable - related party	6,073	22,380
Accrued expenses	6,398,115	7,462,290
Derivative liabilities	6,538,485	16,508,253
Lease liabilities - current	4,026,595	3,139,289
Current portion of long term debt	6,583,334	2,250,000
Income taxes payable	14,113,477	7,297,815
Total current liabilities	49,771,329	47,381,308
Long term debt, net of debt discount and issuance costs	148,861,810	125,521,520
Lease liabilities	22,096,232	17,314,464
Deferred income taxes, net	178,031	502,070
Total long-term liabilities	171,136,073	143,338,054
Total liabilities	<u>\$ 220,907,402</u>	<u>\$ 190,719,362</u>
Commitments and contingencies (Note 17)	—	—
Stockholders' equity		
Preferred stock, \$0.001 par value. 10,000,000 shares authorized; 86,994 shares issued and 86,994 shares outstanding as of June 30, 2023 and 86,994 shares issued and 86,994 shares outstanding as of December 31, 2022.	87	87
Common stock, \$0.001 par value. 250,000,000 shares authorized; 71,730,449 shares issued and 70,590,451 shares outstanding as of June 30, 2023 and 56,352,545 shares issued and 55,212,547 shares outstanding as of December 31, 2022.	71,730	56,353
Additional paid-in capital	201,116,605	180,381,641
Accumulated deficit	(51,103,785)	(46,241,583)
Common stock held in treasury, at cost, 920,150 shares held as of June 30, 2023 and 920,150 shares held as of December 31, 2022.	(2,033,127)	(2,033,127)
Total stockholders' equity	<u>148,051,510</u>	<u>132,163,371</u>
Total liabilities and stockholders' equity	<u>\$ 368,958,912</u>	<u>\$ 322,882,733</u>

See accompanying notes to the condensed consolidated financial statements

MEDICINE MAN TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS) AND INCOME
For the Periods Ended
June 30, 2023 and 2022

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023 (Unaudited)	2022 (Unaudited)	2023 (Unaudited)	2022 (Unaudited)
Operating revenues				
Retail	\$ 38,098,957	\$ 38,138,799	\$ 73,919,068	\$ 64,664,515
Wholesale	4,274,483	6,080,843	8,333,408	11,288,231
Other	1,660	43,750	123,560	88,200
Total revenue	<u>42,375,100</u>	<u>44,263,392</u>	<u>82,376,036</u>	<u>76,040,946</u>
Total cost of goods and services	<u>17,856,050</u>	<u>19,106,944</u>	<u>34,824,320</u>	<u>39,946,995</u>
Gross profit	<u>24,519,050</u>	<u>25,156,448</u>	<u>47,551,716</u>	<u>36,093,951</u>
Operating expenses				
Selling, general and administrative expenses	8,838,936	6,666,044	19,054,847	13,521,755
Professional services	487,860	1,516,544	1,675,224	4,101,016
Salaries	7,389,172	7,240,368	13,154,165	12,537,145
Stock based compensation	2,845,691	697,842	3,060,235	1,688,925
Total operating expenses	<u>19,561,659</u>	<u>16,120,798</u>	<u>36,944,471</u>	<u>31,848,841</u>
Income from operations	<u>4,957,391</u>	<u>9,035,650</u>	<u>10,607,245</u>	<u>4,245,110</u>
Other income (expense)				
Interest expense, net	(7,890,439)	(7,489,205)	(15,636,294)	(14,791,459)
Unrealized gain (loss) on derivative liabilities	1,468,083	36,705,764	9,969,768	23,288,292
Other loss	—	—	—	7
Unrealized gain (loss) on investments	—	(5,264)	1,816	(13,813)
Total other income (expense)	<u>(6,422,356)</u>	<u>29,211,295</u>	<u>(5,664,710)</u>	<u>8,483,027</u>
Pre-tax net income (loss)	<u>(1,464,965)</u>	<u>38,246,945</u>	<u>4,942,535</u>	<u>12,728,137</u>
Provision for income taxes	5,142,559	4,405,962	9,804,737	5,665,856
Net income (loss)	<u>\$ (6,607,524)</u>	<u>\$ 33,840,983</u>	<u>\$ (4,862,202)</u>	<u>\$ 7,062,281</u>
Less: Accumulated preferred stock dividends for the period	<u>(2,353,883)</u>	<u>(1,766,575)</u>	<u>(4,383,277)</u>	<u>(3,510,019)</u>
Net income (loss) attributable to common stockholders	<u>\$ (8,961,407)</u>	<u>\$ 32,074,408</u>	<u>\$ (9,245,479)</u>	<u>\$ 3,552,262</u>
Earnings (loss) per share attributable to common shareholders				
Basic (loss) earnings per share	<u>\$ (0.15)</u>	<u>\$ 0.65</u>	<u>\$ (0.16)</u>	<u>\$ 0.07</u>
Diluted (loss) earnings per share	<u>\$ (0.15)</u>	<u>\$ 0.24</u>	<u>\$ (0.16)</u>	<u>\$ 0.03</u>
Weighted average number of shares outstanding – basic	<u>60,538,317</u>	<u>49,178,494</u>	<u>57,999,461</u>	<u>49,178,494</u>
Weighted average number of shares outstanding – diluted	<u>60,538,317</u>	<u>133,481,667</u>	<u>57,999,461</u>	<u>133,481,667</u>
Comprehensive (loss) income	<u>\$ (6,607,524)</u>	<u>\$ 33,840,983</u>	<u>\$ (4,862,202)</u>	<u>\$ 7,062,281</u>

See accompanying notes to the condensed consolidated financial statements

MEDICINE MAN TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended
June 30, 2023 and 2022

	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	Shares	Amount			Shares	Cost	
Balance, December 31, 2021	<u>86,994</u>	<u>\$ 87</u>	<u>45,484,314</u>	<u>\$ 45,485</u>	<u>\$ 162,815,097</u>	<u>\$ (27,773,968)</u>	<u>517,044</u>	<u>\$ (1,517,036)</u>	<u>\$ 133,569,665</u>
Net income (loss)	—	—	—	—	—	7,062,281	—	—	7,062,281
Issuance of stock as payment for acquisitions	—	—	9,742,204	9,742	15,090,258	—	—	—	15,100,000
Issuance of common stock as compensation to employees, officers and/or directors	—	—	222,547	223	384,784	—	—	—	385,006
Return of common stock as compensation to employees, officers and/or directors	—	—	—	—	—	—	369,415	(473,642)	(473,642)
Stock based compensation expense related to common stock options	—	—	—	—	1,688,925	—	—	—	1,688,925
Balance, June 30, 2022	<u>86,994</u>	<u>\$ 87</u>	<u>55,449,065</u>	<u>\$ 55,450</u>	<u>\$ 179,979,063</u>	<u>\$ (20,711,687)</u>	<u>886,459</u>	<u>\$ (1,990,678)</u>	<u>\$ 157,332,235</u>
	Preferred Stock		Common Stock		Additional	Accumulated	Treasury Stock		Total
	Shares	Value	Shares	Value	Paid in	Deficit	Shares	Cost	Stockholders'
					Capital				Equity
Balance, December 31, 2022	<u>86,994</u>	<u>\$ 87</u>	<u>56,352,545</u>	<u>\$ 56,353</u>	<u>\$ 180,381,641</u>	<u>\$ (46,241,583)</u>	<u>920,150</u>	<u>\$ (2,033,127)</u>	<u>\$ 132,163,371</u>
Net income (loss)	—	—	—	—	—	(4,862,202)	—	—	(4,862,202)
Issuance of stock as payment for acquisitions	—	—	14,992,354	14,992	17,277,998	—	—	—	17,292,990
Issuance of common stock as compensation to employees, officers and/or directors	—	—	385,550	385	396,731	—	—	—	397,116
Stock based compensation expense related to common stock options	—	—	—	—	3,060,235	—	—	—	3,060,235
Balance, June 30, 2023	<u>86,994</u>	<u>\$ 87</u>	<u>71,730,449</u>	<u>\$ 71,730</u>	<u>201,116,605</u>	<u>\$ (51,103,785)</u>	<u>920,150</u>	<u>\$ (2,033,127)</u>	<u>\$ 148,051,510</u>

See accompanying notes to the condensed consolidated financial statements

MEDICINE MAN TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three Months Ended June 30, 2023 and 2022
Expressed in U.S. Dollars

	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Value	Shares	Value			Shares	Cost	
Balance, March 31, 2022	<u>86,994</u>	<u>\$ 87</u>	<u>53,513,644</u>	<u>\$ 53,514</u>	<u>\$ 176,998,151</u>	<u>\$ (54,552,670)</u>	<u>517,044</u>	<u>\$ (1,517,036)</u>	<u>\$ 120,982,046</u>
Net income (loss)	—	—	—	—	—	33,840,983	—	—	33,840,983
Issuance of stock as payment for acquisitions	—	—	1,712,874	1,713	1,898,287	—	—	—	1,900,000
Issuance of common stock as compensation to employees, officers and/or directors	—	—	222,547	223	384,784	—	—	—	385,006
Stock based compensation expense related to common stock options	—	—	—	—	697,842	—	369,415	(473,642)	224,200
Balance, June 30, 2022	<u>86,994</u>	<u>\$ 87</u>	<u>55,449,065</u>	<u>\$ 55,450</u>	<u>\$ 179,979,063</u>	<u>\$ (20,711,687)</u>	<u>886,459</u>	<u>\$ (1,990,678)</u>	<u>\$ 157,332,235</u>
	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Value	Shares	Value			Shares	Cost	
Balance, March 31, 2023	<u>86,994</u>	<u>\$ 87</u>	<u>56,352,545</u>	<u>\$ 56,353</u>	<u>\$ 180,596,185</u>	<u>\$ (44,496,261)</u>	<u>920,150</u>	<u>\$ (2,033,127)</u>	<u>\$ 134,123,345</u>
Net income (loss)	—	—	—	—	—	(6,607,524)	—	—	(6,607,524)
Issuance of stock as payment for acquisitions	—	—	14,992,354	14,992	17,277,998	—	—	—	17,292,990
Issuance of common stock as compensation to employees, officers and/or directors	—	—	385,550	385	396,731	—	—	—	397,116
Stock based compensation expense related to common stock options	—	—	—	—	2,845,691	—	—	—	2,845,691
Balance, June 30, 2023	<u>86,994</u>	<u>\$ 87</u>	<u>71,730,449</u>	<u>\$ 71,730</u>	<u>\$ 201,116,605</u>	<u>\$ (51,103,785)</u>	<u>920,150</u>	<u>\$ (2,033,127)</u>	<u>\$ 148,051,510</u>

See accompanying notes to the condensed consolidated financial statements

MEDICINE MAN TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Periods Ended
June 30, 2023 and 2022

	For the Six Months Ended	
	2023	2022
Cash flows from operating activities		
Net income (loss) for the period	(4,862,202)	7,062,281
Adjustments to reconcile net income (loss) to cash for operating activities		
Depreciation and amortization	10,826,289	1,553,817
Non-cash interest expense	1,992,280	2,165,366
Non-cash lease expense	3,316,171	4,705,059
Deferred taxes	(324,039)	—
Change in derivative liabilities	(9,969,768)	(23,288,292)
Amortization of debt issuance costs	843,025	843,025
Amortization of debt discount	4,088,319	3,590,017
(Gain) loss on investment, net	(1,816)	13,813
Stock based compensation	3,060,235	776,917
Changes in operating assets and liabilities (net of acquired amounts):		
Accounts receivable	(923,614)	(1,689,914)
Inventory	(5,937,100)	3,924,172
Prepaid expenses and other current assets	(909,663)	(5,219,898)
Other assets	304,451	(185,589)
Change in operating lease liabilities	(2,661,202)	(8,873,051)
Accounts payable and other liabilities	(3,853,458)	5,922,458
Income taxes payable	6,815,662	(1,163,770)
Net cash provided by (used in) operating activities	1,803,570	(9,863,589)
Cash flows from investing activities:		
Collection of notes receivable	10,631	—
Cash consideration for acquisition of business, net of cash acquired	(15,834,378)	(56,875,923)
Purchase of fixed assets	(4,704,093)	(7,076,116)
Purchase of intangible assets	—	(2,825)
Net cash provided by (used in) investing activities	(20,527,840)	(63,954,864)
Cash flows from financing activities:		
Payment on notes payable	(750,000)	—
Proceeds from issuance of common stock, net of issuance costs	397,116	1,280,660
Net cash provided by (used in) financing activities	(352,884)	1,280,660
Net (decrease) in cash and cash equivalents	(19,077,154)	(72,537,793)
Cash and cash equivalents at beginning of period	38,949,253	106,400,216
Cash and cash equivalents at end of period	\$ 19,872,099	\$ 33,862,423
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 10,931,090	\$ 9,004,575
Cash paid for income taxes	3,500,000	6,840,000
Supplemental disclosure of non-cash investing and financing activities:		
Lease liability arising from right of use asset	4,462,594	10,172,788
Issuance of stock as payment for acquisitions	17,277,998	15,100,450
Issuance of debt for acquisition	21,500,000	17,000,000
Acquisitions:		
Tangible and Intangible assets acquired, net of cash	47,090,774	30,107,975
Liabilities assumed	3,535,029	1,837,221
Goodwill	13,592,071	60,705,169

See accompanying notes to the condensed consolidated financial statements

MEDICINE MAN TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

1. Organization and Nature of Operations

Medicine Man Technologies, Inc. (“we,” “us,” “our” or the “Company”) was incorporated in Nevada on March 20, 2014. On May 1, 2014, the Company entered into an exclusive Technology License Agreement with Futurevision, Inc. f/k/a Medicine Man Production Corp. d/b/a Medicine Man Denver (“Medicine Man Denver”) whereby Medicine Man Denver granted us a license to use all of their proprietary processes they have developed, implemented and practiced at their cannabis facilities relating to the commercial growth, cultivation, marketing, and distribution of medical marijuana and recreational marijuana pursuant to relevant state laws and the right to use and to license such information, including trade secrets, skills and experience (present and future). The Company’s operations are organized into three different segments as follows: (i) Retail, consisting of retail locations for sale of cannabis products in Colorado and New Mexico, (ii) Wholesale, consisting of manufacturing, cultivation and sale of wholesale cannabis and non-cannabis products, and (iii) Other, consisting of all other income and expenses, including those related to certain in-store marketing and promotional activities and corporate operations.

On April 20, 2020, the Company rebranded and conducts its business under the trade name, Schwazze. The corporate name of the Company continues to be Medicine Man Technologies, Inc. The Company’s common stock is listed for trading in the United States on the OTCQX Best Market under the symbol “SHWZ” and also listed for trading in Canada on the NEO Exchange under the symbol “SHWZ.”

The accompanying unaudited interim condensed consolidated financial statements have been prepared by the Company without audit pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted as allowed by such rules and regulations, and management believes that the disclosures are adequate to make the information presented not misleading. These unaudited interim consolidated financial statements include all the adjustments, which in the opinion of management, are necessary to present a fair presentation of the Company’s financial position and results of operations. All such adjustments are of a normal and recurring nature. Interim results are not necessarily indicative of results for a full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2022, and 2021, as presented in the Company’s Annual Report on Form 10-K filed on March 29, 2023 with the SEC. Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on the Company’s net earnings and financial position.

2. Accounting Policies and Estimates

There have been no changes in the Company’s accounting policies as described in Note 2, “Accounting Policies and Estimates,” to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

3. Recently Adopted Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements. Pronouncements that are not applicable to the Company or where it has been determined to not have a significant impact on the financial statements have been excluded herein.

In February 2020, the FASB issued ASU 2020-02, *Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No (ASU). 2016-02, Leases (Topic 842)*, which amends the effective date of the original pronouncement for smaller reporting companies. ASU 2016-13 and its amendments will be effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2022. As of January

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1, 2019, the Company adopted ASU 2016-02, Leases (Topic 842), the adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

On August 5, 2020, the FASB issued ASU No. 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)*: Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, to improve financial reporting associated with accounting for convertible instruments and contracts in an entity's own equity. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

4. Notes Receivable

On March 12, 2021, the Company sold equipment to Colorado Cannabis Company LLC ("Colorado Cannabis"). Colorado Cannabis is obligated to pay \$215,000, payable in equal monthly installments for 18 months commencing 30 days from the date of taking possession of the equipment pursuant to the Purchase and Sale Agreement, dated January 29, 2021, between the Company and Colorado Cannabis. As of June 30, 2023 and December 31, 2022, the outstanding balance, including penalties for late payments, on the receivable from Colorado Cannabis totaled \$0 and \$11,944, respectively.

5. Inventory

The Company's inventory consists of the following as of June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Raw Materials	\$ 2,310,920	\$ 2,325,482
Work in Process	13,194,868	14,504,490
Finished Goods	18,315,494	5,724,210
Total Inventories	<u>\$ 33,821,282</u>	<u>\$ 22,554,182</u>

As of June 30, 2023 and December 31, 2022, the Company did not recognize any adjustment to net realizable value within its inventory.

6. Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation and are comprised of the following:

	June 30, 2023	December 31, 2022
Land	\$ 3,716,438	\$ 3,716,438
Building	4,830,976	4,830,976
Leasehold improvements	11,371,624	4,100,165
Furniture and fixtures	679,685	655,698
Vehicles, machinery, and tools	4,892,416	3,796,695
Software, servers and equipment	4,532,507	4,132,621
Construction in progress	8,112,600	10,756,410
Total Asset Cost	\$ 38,136,246	\$ 31,989,003
Less: Accumulated depreciation	(7,007,889)	(4,899,977)
Total property and equipment, net of depreciation	<u>\$ 31,128,357</u>	<u>\$ 27,089,026</u>

Construction in progress is related to both cultivation and manufacturing facilities and includes costs related to finished goods not yet completed or otherwise not ready for use.

Depreciation expense for the three and six months ended June 30, 2023 was \$1,127,374 and \$2,107,912, respectively and \$821,757 and \$1,223,706 for the three and six months ended June 30, 2022, respectively.

7. Business Combination

On January 26, 2022, the Company acquired two retail dispensaries located in Boulder, Colorado pursuant to an asset purchase agreement dated June 25, 2021 with Double Brow, LLC, a wholly-owned subsidiary of the Company (“Double Brow”), BG# Investments, LLC d/b/a Drift (“Drift”), Black Box Licensing, LLC, and Brian Searchinger, as the sole equityholder of Drift, as amended on October 28, 2021 (the “Drift Purchase Agreement”). The acquired assets included (i) the assets used in or related to Drift’s business of distributing, marketing, and selling recreational cannabis products and (ii) the leases for two retail dispensaries located in Boulder, Colorado. The aggregate closing consideration for the acquisition was (i) \$1.92 million in cash, and (ii) 1,146,099 shares of Common Stock issued to Drift. The Company utilized purchase price accounting to value assets acquired, which values such assets at approximately fair market value. The purchase price accounting for the Drift acquisition resulted in \$2,138,270 of goodwill and \$1,030,000 of intangibles.

On February 8, 2022, the Company acquired its New Mexico business pursuant to a purchase agreement with Nuevo Holding, LLC, a wholly-owned subsidiary of the Company (“Nuevo Purchaser”), Nuevo Elemental Holding, LLC (“Elemental Purchaser” and together with Nuevo Purchaser, the “Nuevo Purchasers”), Reynold Greenleaf & Associates LLC (“RGA”), Elemental Kitchen and Laboratories, LLC, a wholly-owned subsidiary of RGA (“Elemental”), the equity holders of RGA and Elemental, and William N. Ford, in his capacity as Representative, as amended on February 9, 2022 (the “Nuevo Purchase Agreement”). The Nuevo Purchasers acquired substantially all the operating assets of RGA and all of the equity of Elemental and assumed specified liabilities of RGA and Elemental. Pursuant to existing laws and regulations in New Mexico, the cannabis licenses for certain facilities managed by RGA were held by two not-for-profit entities (“NFP”): Medzen Services, Inc. (“Medzen”) and R. Greenleaf Organics, Inc. (“R. Greenleaf” and together with Medzen, the “Nuevo NFPs”). At the closing, Nuevo Purchaser gained control over the Nuevo NFPs by becoming the sole member of each of the Nuevo NFPs and replacing the directors of the two Nuevo NFPs with executive officers of the Company. The business acquired from RGA was a management company, providing branding, marketing, and consulting services, licensing certain intellectual property related to the business, and supporting Elemental and the Nuevo NFPs to promote, support, and develop sales and distribution of products. Elemental is engaged in the business of creating and distributing cannabis-derived products to licensed cannabis producers. Elemental and the Nuevo NFPs are in the business of cultivating, processing, and dispensing marijuana in New Mexico. At the closing of the Nuevo Purchase Agreement, Nuevo Purchaser entered into two separate Call Option Agreements containing substantially identical terms with each of the Nuevo NFPs. Each Call Option Agreement gives Nuevo Purchaser the right to acquire 100% of the equity or 100% of the assets of the applicable Nuevo NFP for a purchase price of \$100 if, in the future, the New Mexico legislature adopts legislation that permits a NFP to (i) convert to a for-profit corporation and maintain its cannabis license or (ii) sell its assets (including its cannabis license) to a for-profit corporation. The aggregate closing consideration for the acquisitions was approximately (i) \$32.2 million in cash, which included a \$4.5 million cash earnout based on EBITDA of the acquired businesses for the calendar year 2021, and (ii) \$17.0 million in the form of an unsecured promissory note issued by Nuevo Purchaser to RGA, the principal amount of which is payable on February 8, 2025 with interest payable monthly at an annual interest rate of 5% (the “Nuevo Note”). The Company utilized purchase price accounting to value assets acquired, which values such assets at approximately fair market value. The purchase price accounting for the RGA acquisition resulted in \$6,196,571 of goodwill and \$28,785,000 of intangibles.

On February 9, 2022, the Company acquired MCG, LLC (“MCG”), which operates two dispensaries located in Denver and Manitou Springs, Colorado pursuant to the terms of an Agreement and Plan of Merger, dated November 15, 2021, with Emerald Fields Merger Sub, LLC, a wholly-owned subsidiary of the Company (“Emerald Fields”), MCG, MCG’s owners and Donald Douglas Burkhalter and James Gulbrandsen in their capacity as the Member Representatives, as amended on February 9, 2022 (the “MCG Merger Agreement”). Under the MCG Merger Agreement, MCG merged with and into Emerald Fields, with Emerald Fields continuing as the surviving entity. The aggregate closing consideration for the merger was \$29.0 million, consisting of: (i) \$16.0 million in cash; (ii) 7,145,724 shares of the Common Stock issued to the members of MCG; and (iii) an aggregate of \$2.32 million was held back as collateral for potential claims for indemnification under the MCG Merger Agreement. The Company utilized purchase price accounting to value assets acquired, which values such assets at approximately fair market value. The purchase price accounting for the MCG acquisition resulted in \$19,852,080 of goodwill and \$12,400,000 of intangibles.

On February 15, 2022, the Company acquired substantially all of the operating assets of Brow 2, LLC (“Brow”) related to its indoor cannabis cultivation operations located in Denver, Colorado (other than assets expressly excluded) and assumed certain liabilities for contracts acquired pursuant to the terms of the Asset Purchase Agreement, dated August 20, 2021, among Double Brow, Brow, and Brian Welsh, as the owner of Brow (the “Brow Purchase Agreement”). The acquired assets included a 37,000 square foot building, the associated lease, and equipment designed for indoor cultivation. After purchase price adjustments for pre-closing inventory, the aggregate consideration was \$6.7 million, of which Double Brow paid \$6.2 million at closing and held back \$500,000 as collateral for potential claims for indemnification under the Brow Purchase Agreement. The Company utilized purchase price accounting to value assets acquired, which values such assets at approximately fair market value. The purchase price accounting for the Brow acquisition resulted in \$1,792,000 of goodwill and \$3,970,000 of intangibles.

On May 31, 2022, the Company acquired substantially all of the operating assets of Urban Dispensary, which operates a dispensary and indoor cultivation in Colorado, pursuant to the terms of an Asset and Personal Goodwill Purchase Agreement, dated March 11, 2022, with Double Brow, Urban Health & Wellness, Inc. d/b/a Urban Dispensary (“Urban Dispensary”), Productive Investments, LLC, and Patrick Johnson (the “Urban Purchase Agreement”). Urban Dispensary operated an indoor cannabis cultivation facility and a single retail dispensary, each located in Denver, Colorado. The aggregate consideration for the Urban Dispensary acquisition was \$1.32 million in cash and 1,670,230 shares of Common Stock. The Company held back 219,847 shares from the stock consideration at closing as collateral for potential claims for indemnification from Urban Dispensary under the Urban Purchase Agreement. The Company utilized purchase price accounting to value assets acquired, which values such assets at approximately fair market value. The purchase price accounting for the Urban Dispensary acquisition resulted in \$398,148 of goodwill and \$2,490,000 of intangibles. Amortization of \$230,146 was recorded at June 30, 2023 to selling, general and administrative expenses.

On December 15, 2022, the Company acquired substantially all of the operating assets associated with two retail dispensaries located in Denver and Aurora, Colorado owned by Lightshade Labs LLC (“Lightshade”) pursuant to the terms of two Asset Purchase Agreements, dated September 9, 2022, among Double Brow, the Company, Lightshade, and Lightshade’s owners, Thomas Van Alsbury, Steve Brooks, and John Fritzel, as amended on December 15, 2021 (the “Lightshade Purchase Agreements”). After purchase price adjustments for transaction and related expenses, the aggregate consideration for the acquisition was approximately \$2.75 million, all of which was paid in cash. The Company deposited \$300,000 of the purchase price in escrow as collateral for potential claims for indemnification from Lightshade under the Lightshade Purchase Agreements. The Company utilized purchase price accounting to value assets acquired, which values such assets at approximately fair market value. The purchase price accounting for the Lightshade acquisition resulted in \$2,589,865 of goodwill and intangibles, however, valuation has not been finalized.

On May 11, 2023, the Company acquired certain of the operating assets of Cannabis Care Wellness Centers, LLC (d/b/a Smokey’s) and Green Medicals Wellness Center #5, LLC (d/b/a Smokey’s) (together referenced herein as “Smokey’s”), and assumed specific obligations of Smokey’s, pursuant to the terms of the Asset Purchase Agreement, dated January 25, 2023, among Smoke Holdco, LLC, a wholly-owned subsidiary of the Company (“Smokey’s Buyer”), Smokey’s, Jeremy Lewchuk, Thomas Wilczynski, T&B Holdings, LLC, and Thomas Wilczynski, as Representative (the “Smokey’s Purchase Agreement”). Pursuant to the Smokey’s Purchase Agreement, Smokey’s Buyer acquired substantially all of Smokey’s’ assets related to its retail and medical cannabis stores located in Garden City, Colorado and Fort Collins, Colorado. After purchase price adjustments for transaction and related expenses, the aggregate consideration for the Smokey’s acquisition was approximately \$7.5 million, of which approximately \$3.75 million was paid in cash and \$3.75 million was paid in Company common stock at a share price of \$1.092 per share. Total shares issued at closing equaled 2,884,615 shares of Company common stock. The stock consideration is subject to post-closing reduction if any of the actual cannabis product inventory or cash at closing is less than certain targets stated in the Smokey’s Purchase Agreement. The Company held back from issuance \$600,000 from the stock consideration and \$150,000 from the cash consideration as collateral for potential claims for indemnification from Smokey’s under the Smokey’s Purchase Agreement. The Company utilized purchase price accounting to value assets acquired, which values such assets at approximately fair market value. The purchase price accounting for the Smokey’s acquisition resulted in \$2,155,155 of goodwill and \$5,276,415 of intangibles, however valuation has not been finalized.

On June 1, 2023, the Company acquired 14 retail dispensaries, one cultivation facility, and one manufacturing facility in New Mexico pursuant to an Asset Purchase Agreement, dated April 21, 2023, between Evergreen Holdco, LLC, a wholly-

owned subsidiary of the Company (“Everest Purchaser”), Sucellus, LLC (“Everest Seller”), James Griffin, Brook Laskey, William Baldwin, Andrew Dolan, and Greg Templeton, and Brook Laskey, as Representative, as amended on June 1, 2023 (the “Everest Purchase Agreement”). Everest Purchaser acquired substantially all of the operating assets of Everest Seller and assumed specified liabilities of Everest Seller, subject to the terms and conditions set forth in the Everest Purchase Agreement (the “Everest Acquisition”). Pursuant to existing laws and regulations in New Mexico, the cannabis licenses for the facilities managed by Everest Seller are held by a NFP, Everest Apothecary, Inc., (“Everest”). At the closing, Everest Purchaser gained control over Everest by replacing the officers and directors of Everest with officers of the Company. On the same date, Everest Purchaser entered into a separate Call Option Agreement that gives Everest Purchaser the right to acquire 100% of the equity or 100% of the assets of Everest for a purchase price of \$100 if, in the future, the New Mexico legislature adopts legislation that permits NFPs to (i) convert to a for-profit corporation and maintain its cannabis license or (ii) sell its assets (including its cannabis license) to a for-profit corporation. After purchase price adjustments and subject to post-closing adjustments, the aggregate purchase price for Everest Acquisition paid at closing was approximately \$38 million, of which \$12.5 million was paid in cash, \$17.5 million was paid in the form of an unsecured promissory note issued by Everest Purchaser to Everest Seller (the “Everest Note”), and \$8 million was paid in Company common stock in the amount of 7,619,047 shares. The Everest Note is payable on the last day of the calendar quarter following the fourth anniversary of the closing of the Everest Acquisition with interest payable quarterly at an annual interest rate of 5%. Two initial principal and interest payments of \$1,250,000 are due to Everest Seller on August 30, 2023 and November 28, 2023. The Company is required to make installment payments of principal and interest starting June 30, 2025, and the total outstanding principal will be due on May 31, 2027. In addition to the foregoing, Everest Purchaser may be required to make a potential “earn-out” payment of up to an additional \$8 million, payable in Company common stock priced at closing of the Everest Acquisition. The earn-out is based on the revenue performance of certain retail stores of Everest for the 12-month period following such stores opening for business and is revalued quarterly. Management currently estimates the expected earn-out payment to equal approximately \$2.5 million based on current projections. Indemnification claims permitted under the Everest Purchase Agreement will be offset against the Everest Note. The Company utilized purchase price accounting to value assets acquired, which values such assets at approximately fair market value. The purchase price accounting for the Everest acquisition resulted in \$8,475,758 of goodwill and \$25,128,876 of intangibles, however valuation has not been finalized.

On June 15, 2023, the Company acquired substantially all of the operating assets of Standing Akimbo, LLC (“Standing Akimbo”) related to its medical cannabis store located in Denver, Colorado pursuant to the terms of the Asset Purchase Agreement, dated April 13, 2023 (the “Akimbo Purchase Agreement”), between Double Brow, Standing Akimbo, Spencer Kirson, and John Murphy (together with Spencer Kirson and John Murphy, the “Akimbo Equityholders”). The aggregate consideration for the acquisition was approximately \$10.5 million, of which \$5 million is payable in cash (“Akimbo Cash Consideration”) and approximately \$5.5 million payable in the form of Company common stock (“Akimbo Stock Consideration” and together with the Akimbo Cash Consideration, the “Akimbo Purchase Price”). At the closing of the acquisition, the Company paid \$1.0 million of the Akimbo Purchase Price in cash (the “Akimbo Closing Cash Consideration”) and approximately \$4.5 million of the Akimbo Purchase Price in Company common stock for a total of 4,488,691 shares at a per share price of \$1.00 per share (the “Akimbo Closing Stock Consideration” and together with the Akimbo Closing Cash Consideration, the “Akimbo Closing Consideration”). The Company is obligated to pay the remainder of the Akimbo Cash Consideration over 12 months starting on July 15, 2023 as set forth in the Akimbo Purchase Agreement (the “Akimbo Deferred Purchase Price”), of which the Company will hold back, in aggregate, approximately \$750,000 from the Akimbo Deferred Purchase Price for purposes of securing certain obligations of Standing Akimbo and the Akimbo Equityholders pursuant to the Akimbo Purchase Agreement and Related Agreements (as defined in the Akimbo Purchase Agreement). The Company also reserved from issuance approximately \$1.0 million from the Akimbo Stock Consideration as collateral for potential claims for indemnification from Standing Akimbo and the Akimbo Equityholders under the Akimbo Purchase Agreement. The Company utilized purchase price accounting to value assets acquired, which values such assets at approximately fair market value. The purchase price accounting for the acquisition of Standing Akimbo resulted in \$2,961,158 of goodwill and \$7,249,732 of intangibles, however valuation has not been finalized.

The Company estimates intangible assets for current acquisitions based on prior valuations of acquisitions of similar size. The Company’s policy is to record amortization on the intangible assets beginning on the purchase date. Upon the completion of valuation, the Company revises the intangible assets and related amortization as necessary.

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These transactions were accounted for as a business combination in accordance with ASC 805, *Business Combinations* (“ASC 805”) in the period acquired. Refer to the Company’s business combination note as described in Note 7, “Business Combinations,” to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

	Evergreen Holdco, LLC	Standing Akimbo, LLC	Smoke Holdco, LLC
Cash	\$ 12,500,000	\$ 1,000,000	\$ 3,750,000
Akimbo Deferred Purchase Price	—	4,000,000	—
Seller notes	17,500,000	—	—
Common stock	8,000,000	5,542,990	3,750,000
Expected earn-out	2,520,448	—	—
Total purchase price	<u>\$ 40,520,448</u>	<u>\$ 10,542,990</u>	<u>\$ 7,500,000</u>

Description	Evergreen Holdco, LLC	Standing Akimbo, LLC	Smoke Holdco, LLC
Assets acquired:			
Cash	\$ 1,412,722	\$ 2,100	\$ 800
Accounts receivable	716,440	—	67,630
Inventory	5,000,000	330,000	—
Fixed assets	1,443,149	—	—
Intangible assets	25,128,876	7,249,732	5,276,415
Goodwill	8,475,758	2,961,158	2,155,155
Operating lease right of use assets	1,878,545	—	—
Total Assets acquired	<u>\$ 44,055,490</u>	<u>\$ 10,542,990</u>	<u>\$ 7,500,000</u>
Liabilities and Equity assumed:			
Accounts payable and accrued expenses	\$ 1,656,497	\$ —	\$ —
Lease liability	1,878,545	—	—
Total Liabilities assumed	<u>3,535,042</u>	<u>—</u>	<u>—</u>
Estimated fair value of net assets acquired	<u>\$ 40,520,448</u>	<u>\$ 10,542,990</u>	<u>\$ 7,500,000</u>

The goodwill, which is not expected to be deductible for income tax purposes, consists largely of the synergies, assembled workforce and economies of scale expected from combining the operations of the acquired entities with the Company.

The following unaudited pro forma financial information set forth below gives effect to the Evergreen Holdco, LLC acquisition as if it had occurred on January 1, 2022. Pro forma financial information is not presented for Standing Akimbo, LLC and Smoke Holdco, LLC as such results are immaterial, individually and in aggregate, to both the current and prior periods. These unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of the result of operations that would have been achieved had the transaction been consummated as of that time, nor does it purport to be indicative of future financial operation results.

For the three months ended June 30, 2023

	Medicine Man Technologies <i>(unaudited)</i>	Evergreen Holdco, LLC <i>(unaudited)</i>	Total <i>(unaudited)</i>
Pro forma revenue	\$ 42,375,100	3,114,803	\$ 45,489,903
Pro forma net income:			
Pre- acquisition net income		350,830	
Pro forma adjustments:			
(a) Transaction costs		232,853 (a)	
(b) Interest expense on Everest Note		(36,458) (b)	
(c) Depreciation and intangible amortization		(313,217) (c)	
(d) Income tax expense		(410,000) (d)	
Total pro forma adjustments		(526,822)	
Total pro forma net income	\$ (6,607,254)	(175,992)	\$ (6,783,246)

a) Includes removal of transaction costs associated with the acquisition as they will be reflected as of the beginning of the earliest period presented (January 1, 2022). These costs were included as selling, general and administrative expenses in the statement of comprehensive (loss) income.

b) To record interest on Everest Note of 5% per annum.

c) To record depreciation of fixed assets and amortization of intangible assets related to fixed assets and intangible assets acquired in the transaction.

d) To record provision for income tax based on the estimated effective tax rate of 28.6% applied to income taxable under IRC Section 280E.

For the six months ended June 30, 2023

	Medicine Man Technologies <i>(unaudited)</i>	Evergreen Holdco, LLC <i>(unaudited)</i>	Total <i>(unaudited)</i>
Pro forma revenue	\$ 82,376,036	9,152,029	\$ 91,528,065
Pro forma net income:			
Pre- acquisition net income		1,967,236	
Pro forma adjustments:			
(a) Transaction costs		232,853 (a)	
(b) Interest expense on Everest Note		(91,146) (b)	
(c) Depreciation and intangible amortization		(783,042) (c)	
(d) Income tax expense		(1,025,000) (d)	
Total pro forma adjustments		(1,666,335)	
Total pro forma net income	\$ (4,862,202)	300,901	\$ (4,561,301)

a) Includes removal of transaction costs associated with the acquisition as they will be reflected as of the beginning of the earliest period presented (January 1, 2022). These costs were included as selling, general and administrative expenses in the statement of comprehensive(loss) income.

b) To record interest on Everest Note of 5% per annum.

c) To record depreciation of fixed assets and amortization of intangible assets related to fixed assets and intangible assets acquired in the transaction.

d) To record provision for income tax based on the estimated effective tax rate of 28.6% applied to income taxable under IRC Section 280E.

	For the three months ended June 30, 2022		
	Medicine Man Technologies	Evergreen Holdco, LLC <i>(unaudited)</i>	Total <i>(unaudited)</i>
Pro forma revenue	\$ 44,263,392	6,754,980	\$ 51,018,372
Pro forma net income:			
Pre- acquisition net income		2,461,303	
Pro forma adjustments:			
(a) Transaction costs		(232,853) (a)	
(b) Interest expense on Everest Note		(54,688) (b)	
(c) Depreciation and intangible amortization		(469,825) (c)	
Total pro forma adjustments		(757,366)	
Total pro forma net income	\$ 33,840,983	1,703,937	35,544,920

a) Includes transaction costs related to the acquisition (reflected as of January 1, 2022).

b) To record interest on Everest Note of 5% per annum.

c) To record depreciation of fixed assets and amortization of intangible assets related to fixed assets and intangible assets acquired in the transaction.

	For the six months ended June 30, 2022		
	Medicine Man Technologies	Evergreen Holdco, LLC <i>(unaudited)</i>	Total <i>(unaudited)</i>
Pro forma revenue	\$ 76,040,946	9,496,533	\$ 85,537,479
Pro forma net income:			
Pre- acquisition net income		2,477,250	
Pro forma adjustments:			
(a) Transaction costs		(232,853) (a)	
(b) Interest expense on Everest Note		(109,375) (b)	
(c) Depreciation and intangible amortization		(939,651) (c)	
Total pro forma adjustments		(1,281,879)	
Total pro forma net income	\$ 7,062,281	1,195,371	8,257,652

a) Includes transaction costs related to the acquisition (reflected as of January 1, 2022).

b) To record interest on Everest Note of 5% per annum.

c) To record depreciation of fixed assets and amortization of intangible assets related to fixed assets and intangible assets acquired in the transaction.

For the year ended December 31, 2022

	<u>Medicine Man Technologies</u>	<u>Evergreen Holdco, LLC</u> <i>(unaudited)</i>	<u>Total</u> <i>(unaudited)</i>
Pro forma revenue	\$ 159,379,219	22,439,548	\$ 181,818,767
Pro forma net income:			
Pre- acquisition net income		3,878,250	
Pro forma adjustments:			
(a) Transaction costs		(232,853) (a)	
(b) Interest expense on Everest Note		(218,750) (b)	
(c) Depreciation and intangible amortization		(1,879,302) (c)	
Total pro forma adjustments		(2,330,905)	
Total pro forma net income	\$ (18,467,615)	1,547,345	(16,920,270)

a) Includes transaction costs related to the acquisition (reflected as of January 1, 2022).

b) To record interest on Everest Note of 5% per annum.

c) To record depreciation of fixed assets and amortization of intangible assets related to fixed assets and intangible assets acquired in the transaction.

8. Goodwill Accounting

The Company accounts for acquisitions in which it obtains control of one or more businesses as a business combination. The purchase price of the acquired businesses is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over those fair values is recognized as goodwill. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments, in the period in which they are determined, to the assets acquired and liabilities assumed with the corresponding offset to goodwill. If the assets acquired are not a business, the Company accounts for the transaction or other event as an asset acquisition. Under both methods, the Company recognizes the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired entity. In addition, for transactions that are business combinations, the Company evaluates the existence of goodwill or a gain from a bargain purchase.

	<u>Retail</u>	<u>Wholesale</u>	<u>Other</u>	<u>Total</u>
Balance as of January 1, 2023	\$ 52,583,794	\$ 7,219,936	\$ 34,801,571	\$ 94,605,301
Goodwill acquired during the period	13,592,071	—	—	13,592,071
Measurement-period adjustment to prior year acquisition	(3,444,242)	—	(28,785,000)	(32,229,242)
Balance as of June 30, 2023	<u>\$ 62,731,623</u>	<u>7,219,936</u>	<u>\$ 6,016,571</u>	<u>\$ 75,968,130</u>

The Company performed its annual fair value assessment as of December 31, 2022 on its subsidiaries with material goodwill on their respective balance sheets and recognized a goodwill impairment charge of \$11,719,306 during 2022. No

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such impairment existed as of June 30, 2023. Impairment is recorded when the carrying values of the reporting units exceed the estimated fair value.

	<u>Retail</u>	<u>Wholesale</u>	<u>Other</u>	<u>Total</u>
Balance as of January 1, 2022	\$ 26,349,025	13,964,016	\$ 3,003,226	\$ 43,316,267
Goodwill acquired during the period	25,594,768	1,792,000	34,981,571	62,368,339
Measurement-period adjustment to prior year acquisition	640,001	—	—	640,001
Goodwill Impairment during 2022	—	(8,536,080)	(3,183,226)	(11,719,306)
Balance as of December 31, 2022	<u>\$ 52,583,794</u>	<u>7,219,936</u>	<u>\$ 34,801,571</u>	<u>\$ 94,605,301</u>

9. Intangible Asset

Intangible assets as of June 30, 2023 and December 31, 2022 were comprised of the following:

	<u>June 30, 2023</u>		<u>December 31, 2022</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
License Agreements	\$ 178,840,122	\$ (18,836,324)	\$ 111,491,280	\$ (12,154,237)
Tradename	7,771,500	(2,944,839)	6,021,500	(1,862,242)
Customer Relationships	5,150,000	(1,842,262)	5,150,000	(1,474,405)
Non-compete	2,023,000	(1,320,977)	1,265,000	(765,556)
Product License and Registration	57,300	(23,693)	57,300	(21,783)
Trade Secret	32,500	(13,722)	32,500	(12,639)
Total Intangible Assets	<u>\$ 193,874,422</u>	<u>\$ (24,981,817)</u>	<u>\$ 124,017,580</u>	<u>\$ (16,290,862)</u>

Amortization expense was \$3,520,096 and \$8,690,955 for the three and six months ended June 30, 2023 and \$2,138,846 and \$4,277,693 for the three and six months ended June 30, 2022, respectively.

The following table presents the Company's future projected annual amortization expense as of June 30, 2023:

Remainder of 2023	\$ 7,426,504
2024	14,511,759
2025	14,206,620
2026	13,330,843
2027	12,794,764
Thereafter	106,622,115
Total Future Projected Annual Amortization Expense	<u>\$ 168,892,605</u>

10. Derivative Liability

Investor Note

On December 3, 2021, the Company and its subsidiaries, as guarantors (the "Subsidiary Guarantors") entered into a Securities Purchase Agreement with 31 accredited investors (the "Investor Note") pursuant to which the Company agreed to issue and sell to the Note Investors 13% senior secured convertible notes due December 7, 2026 (the "Investor Notes") in an aggregate principal amount of \$95,000,000 for an aggregate purchase price of \$93,100,000 (reflecting an original issue discount of \$1,900,000, or 2%) in a private placement. On December 7, 2021, the Company consummated the private placement and issued and sold the Investor Notes pursuant to the Indenture entered into between the Company, the Subsidiary Guarantors, Chicago Atlantic Admin, LLC, as collateral agent, and Ankura Trust Company, LLC, as trustee (as may be supplemented and/or amended from time to time, the "Indenture"). The Company received net proceeds of approximately \$92,000,000 at the closing, after deducting a commission to the placement agent and estimated offering

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expenses associated with the private placement payable by the Company. The Investor Notes will mature five years after issuance unless earlier repurchased, redeemed, or converted pursuant to the Indenture. The Investor Notes bear interest at 13% per year paid quarterly commencing March 31, 2022 in cash for an amount equal to the amount payable on such date as if the Investor Notes were subject to an annual interest rate of 9%, with the remainder of the accrued interest payable as an increase to the principal amount of the Investor Notes.

A reconciliation of the beginning and ending balances of the derivative liabilities for the periods ended June 30, 2023 and December 31, 2022 were as follows:

Balance as of January 1, 2022	\$ 34,923,013
Loss on derivative liability	(18,414,760)
Balance as of December 31, 2022	\$ 16,508,253
Loss on derivative liability	(8,501,685)
Balance as of March 31, 2023	\$ 8,006,568
Loss on derivative liability	(1,468,083)
Balance as of June 30, 2023	\$ 6,538,485

The Company accounts for derivative instruments in accordance with the GAAP accounting guidance under ASC 815 *Derivatives and Hedging Activities*. In accordance with GAAP, a contract to issue a variable number of equity shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of operations at each period-end. The Company utilizes a Monte Carlo simulation in determining the appropriate fair value. The derivative liability will ultimately be converted into the Company's equity when the Investor Notes are converted or will be extinguished on the repayment of the Investor Notes. The derivative liability will not result in the outlay of any additional cash by the Company. Upon initial recognition, the Company recorded a derivative liability and debt discount of \$16,508,253 in relation to the derivative liability portion of the Investor Notes. The Company recorded expenses related to amortization of the debt discount of \$2,088,386 and \$4,088,319 for the three and six months ended June 30, 2023 respectively, and \$1,833,844 and \$3,590,017 for the three and six months ended June 30, 2022, respectively.

11. Debt

Term Loan — On February 26, 2021, the Company entered into a Loan Agreement with SHWZ Altmore, LLC ("Altmore"), as lender, and GGG Partners LLC, as collateral agent (the "Loan Agreement"). Upon execution of the Loan Agreement, the Company received \$10,000,000 of loan proceeds. In connection with the Company's acquisition of Southern Colorado Growers, the Company received an additional \$5,000,000 of loan proceeds under the Loan Agreement. The term loan incurs 15% interest per annum, payable quarterly on March 1, June 1, September 1, and December 1 of each year. The Company will be required to make principal payments beginning on June 1, 2023 in the amount of \$750,000, payable quarterly with the remainder of the principal due upon maturity on February 26, 2025.

Under the terms of the loan, the Company must comply with certain restrictions. These include customary events of default and various financial covenants including, maintaining (i) a consolidated fixed charge coverage ratio of at least 1.3 at the end of each fiscal quarter beginning in the first quarter of 2022, and (ii) a minimum of \$3,000,000 in a deposit account in which the lender has a security interest. As of June 30, 2023, the Company was in compliance with the requirements described above.

Seller Notes — As part of the Star Buds Acquisition, the Company entered into a deferred payment arrangement with the sellers in an aggregate amount of \$44,250,000. The deferred payment arrangement incurs 12% interest per annum, payable on the first of every month through November 2025. Principal payments are due as follows: \$13,901,759 on December 17, 2025, \$3,474,519 on February 3, 2026, and \$26,873,722 on March 2, 2026.

Investor Notes — On December 3, 2021, the Company and the Subsidiary Guarantors entered into a Securities Purchase Agreement with the Note Investors pursuant to which the Company agreed to issue and sell to the Note Investors Investor Notes in a private placement. On December 7, 2021, the Company consummated the private placement and issued and

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sold the Investor Notes pursuant to the Indenture. The Company received net proceeds of approximately \$92,000,000 at the closing, after deducting a commission to the placement agent and estimated offering expenses associated with the private placement payable by the Company. The Investor Notes will mature five years after issuance unless earlier repurchased, redeemed, or converted. A holder of an Investor Note may convert all or any portion of the Investor Note into shares of Common Stock at any time until the close of business on the business day immediately preceding the maturity date of the Investor Notes, at a conversion price equal to \$2.24 per share (“Conversion Price”). The Conversion Price will be adjusted in the event of any change in the outstanding Common Stock by way of stock subdivision (including a stock split), stock combination, issuance of stock or cash dividends, distributions of other securities or assets and other corporate actions. The number of shares issuable upon conversion of the Investor Notes will be equal to the principal amount of the Investor Note plus accrued interest divided by the conversion price (the “Conversion Rate”).

The Company may, at its option, elect to redeem all, but not less than all, of the Investor Notes for cash, subject to certain conditions, at a repurchase price equal to the principal amount of the Notes plus accrued and unpaid interest thereon on such date as more fully discussed in the agreement.

On the fourth anniversary of the issuance date, the Note Investors will have the right, at their option, to require the Company to repurchase some or all their Notes for cash in an amount equal to the principal amount of the Investor Notes being repurchased plus accrued and unpaid interest up to the date of repurchase.

On or after the second anniversary of the issuance date, the Company may, at its option, convert up to 12.5% of the outstanding Investor Notes each quarter, if (i) the last reported sale price of the Common Stock exceeds 150% of the applicable Conversion Price, (ii) either (a) the Common Stock is listed on a Permitted Exchange (as defined in the Indenture) or (b) the Company’s daily volume weighted average price for the Common Stock exceeds \$2,500,000, in each case for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date of conversion for the Conversion Price plus accrued and unpaid interest and (iii) there is an effective registration statement covering the resale by the holders of the Investor Notes of all Common Stock to be received in such conversion. The Company will be required to pay a Make-Whole Premium (as defined in the Indenture), payable in cash or Common Stock, to the Investors if the Investor Notes are voluntarily converted before the third anniversary of the Issuance Date and the Company’s daily volume weighted average price for the Common Stock does not exceed 175% of the Conversion Rate during the five consecutive trading days immediately preceding the date of conversion.

The Investor Notes have a contingent redemption feature that involves a substantial premium, requiring the same to be bifurcated as a derivative liability.

The Investor Notes bear interest at 13% per year paid quarterly commencing March 31, 2022 in cash for an amount equal to the amount payable on such date as if the Investor Notes were subject to an annual interest rate of 9%, with the remainder of the accrued interest payable as an increase to the principal amount of the Investor Notes. The proceeds from the Investor Notes are required to be used to fund previously identified acquisitions and other growth initiatives. The principal is due December 7, 2026.

The Indenture includes customary affirmative and negative covenants, including limitations on liens, additional indebtedness, repurchases and redemptions of any equity interest in the Company or any Subsidiary Guarantor (as defined in the Indenture), certain investments, and dividends and other restricted payments, and customary events of default. Starting on December 7, 2022, the Company must maintain a Consolidated Fixed Charge Coverage Ratio (as defined in the Indenture) of no less than 1.30 to 1.00 as of the last day of each quarter, and the Company and the Subsidiary Guarantors are required to have at least \$10,000,000 in cash (in aggregate) on the last day of each quarter in deposit accounts for which the collateral agent has a perfected security interest in. The Company and the Subsidiary Guarantors are restricted from making certain payments, including but not limited to (i) payment of dividends, (ii) repurchase, redemption, retire, or otherwise acquire any equity interest, option, or warrant of the Company or any Subsidiary Guarantor, and (iii) payment to any equity holder of the Company or a Subsidiary Guarantor for services provided pursuant to management, consulting, or other service agreement (the “Restricted Payments”) but the Company may declare and pay dividends if payable solely in its own equity, or, in the case of the Subsidiary Guarantors, amounts payable to such subsidiaries with respect to its applicable equity ownership. Provided the Company is not in default under the terms of the Indenture, the Company may

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make Restricted Payments not otherwise permitted thereunder (a) in an amount not to exceed \$500,000 until discharge of the Indenture, or (b) after December 7, 2024, so long as the Company's Consolidated Leverage Ratio (as defined in the Indenture) is between 1.00 and 2.25 for the applicable reference period at the time of the Restricted Payment after giving pro forma effect thereto.

The Indenture contains restrictions and limitations on the Company's ability to incur additional debt and grant liens on its assets. The Company and its Subsidiary Guarantors are not permitted to incur additional debt or issue Disqualified Equity Interests (as defined in the Indenture) unless the Company's Consolidated Leverage Ratio is between 1.00 and 2.25 after giving pro forma effect thereto. In addition, the Company is not permitted to grant a senior lien on its assets (excluding acquisition target assets that are identified in the Indenture) to secure indebtedness unless and until (a) at least \$80,000,000 of the net proceeds from the Notes (plus the proceeds of certain sale-leaseback transactions) have been used to consummate Permitted Acquisitions prior to the granting of any such lien, and (b) the Consolidated Leverage Ratio for the applicable reference period, calculated on a pro forma basis giving effect to such acquisition and all related transactions, is less than 1.40 to 1.00. As of June 30, 2023, the Company expended all of the proceeds from the Investor Notes on acquisitions. The Indenture provides that the Company and its Subsidiary Guarantors may incur debt under certain circumstances, including but not limited to, (i) debt incurred related to certain acquisitions and dispositions, including capital lease obligations and sale-leaseback transactions not to exceed \$5,500,000 (plus up to an additional \$2,200,000 in connection with certain transactions identified prior to the Issuance Date) in the aggregate at any time, (ii) certain transactions in the ordinary course of business, and (iii) any other unsecured debt not to exceed \$1,000,000 at any time.

Nuevo Note – On February 8, 2022, in connection with the Nuevo Purchase Agreement, Nuevo Purchaser issued the Nuevo Note to RGA, requiring the Company to make payments on an aggregate amount of \$17,000,000. The deferred Nuevo Note incurs 5% interest per year, payable on the first of each month. The principal is due February 7, 2025.

Everest Note – On June 1, 2023, in connection with the Everest Purchase Agreement, Everest Purchaser issued the Everest Note to Everest Seller, requiring the Company to make payments on an aggregate amount of \$17,500,000. The Everest Note incurs 5% interest per year, payable quarterly starting June 30, 2023. Two initial principal and interest payments of \$1,250,000 are due on August 30, 2023 and November 28, 2023. The Company is required to make installment payments of principal and interest starting June 30, 2025, and the total outstanding principal is due and payable on May 31, 2027.

Akimbo Deferred Purchase Price– On June 15, 2023, in connection with the Akimbo Purchase Agreement, the Company agreed to pay \$4 million of the Akimbo Purchase Price over four years starting on July 15, 2023, of which the Company will hold back, in aggregate, approximately \$750,000 from the Akimbo Deferred Purchase Price for purposes of securing certain obligations pursuant to the Akimbo Purchase Agreement.

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The following tables sets forth our indebtedness as of June 30, 2023 and December 31, 2022, respectively, and future obligations:

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Term loan dated February 26, 2021, in the original amount of \$10,000,000. An additional \$5,000,000 was added to the loan agreement on July 28, 2021. Interest of 15% per annum, due quarterly. Principal payments begin June 1, 2023.	\$ 14,250,000	\$ 15,000,000
Seller notes dated December 17, 2020 in the original amount of \$44,250,000. Interest of 12% per annum, due monthly. Principal payments begin December 17, 2025.	44,250,000	44,250,000
Investor note dated December 3, 2021, in the original amount of \$95,000,000. Interest of 13% per annum, 9% payable in cash and 4% accreting to the principal amount.	101,110,670	99,118,391
Nuevo note dated February 7, 2022 in the original amount of \$17,000,000. Interest of 5% per annum, due monthly. Principal balance is due February 7, 2025.	17,000,000	17,000,000
Everest note dated June 1, 2023 in the original amount of \$17,500,000. Interest of 5% per annum, due quarterly. Principal payments begin August 30, 2023.	17,500,000	—
Akimbo Deferred Purchase Price effective June 15, 2023 in the original amount of \$4,000,000. Imputed interest of 5% per annum, due quarterly. Principal payments begin July 15, 2023.	4,000,000	—
Less: unamortized debt issuance costs	(5,760,669)	(6,603,695)
Less: unamortized debt discount	(36,904,857)	(40,993,176)
Total long term debt	155,445,144	127,771,520
Less: current portion of long term debt	<u>(6,583,334)</u>	<u>(2,250,000)</u>
Long term debt and unamortized debt issuance costs	<u>\$ 148,861,810</u>	<u>\$ 125,521,520</u>

	<u>Principal Payments</u>	<u>Unamortized Debt Issuance Costs</u>	<u>Unamortized Debt Discount</u>	<u>Net Long Term Debt</u>
2023	5,500,000	843,023	4,435,174	221,803
2024	5,500,000	1,686,049	9,734,935	(5,920,984)
2025	27,624,655	1,686,049	11,057,799	14,880,807
2026	146,583,106	1,545,548	11,676,949	133,360,609
2027	12,902,909	—	—	12,902,909
Total	<u>\$ 198,110,670</u>	<u>\$ 5,760,669</u>	<u>\$ 36,904,857</u>	<u>\$ 155,445,144</u>

12. Leases

Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. Leases with a term greater than one year are recognized on the balance sheet at the time of lease commencement or modification of a Right of Use (“ROU”) operating lease asset and a lease liability, initially measured at the present value of the lease payments. Lease costs are recognized in the income statement

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over the lease term on a straight-line basis. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

The Company's leases consist of real estate leases for office, retail, cultivation, and manufacturing facilities. The Company elected to combine the lease and related non-lease components for its operating leases.

The Company's operating leases include options to extend or terminate the lease, which are not included in the determination of the ROU asset or lease liability unless reasonably certain to be exercised. The Company's operating leases have remaining lease terms of less than ten years. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As the Company's leases do not provide an implicit rate, we used an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. The discount rate used in the computations ranged between 6% and 12%.

Balance Sheet Classification of Operating Lease Assets and Liabilities

	<u>Balance Sheet Line</u>	<u>June 30, 2023</u>
Asset		
Operating lease right of use assets	Noncurrent assets	\$ 23,213,504
Liabilities		
Lease liabilities	Current Liabilities	\$ 4,026,595
Lease liabilities	Noncurrent liabilities	22,096,232

Maturities of Lease Liabilities

Maturities of lease liabilities as of June 30, 2023 are as follows:

2023	\$ 39,361,669
Less: Interest	13,178,774
Present value of lease liabilities	<u>\$ 26,182,895</u>

The following table presents the Company's future minimum lease obligation under ASC 842 as of June 30, 2023:

2023	\$ 3,593,197
2024	6,336,199
2025	5,435,299
2026	5,070,471
2027	3,902,717
Thereafter	15,023,786
Total	<u>\$ 39,361,669</u>

13. Stockholders' Equity

The Company is authorized to issue two classes of stock, Preferred Stock and Common Stock.

Preferred Stock

The number of shares of Series A Cumulative Preferred Stock, par value \$0.001 per share ("Preferred Stock") authorized is 10,000,000. The Preferred Stock may be divided into such number or series as the Board may determine. The Board is authorized to determine and alter the rights, preferences, privileges, and restrictions granted and imposed upon any wholly unissued series of preferred stock, and to fix the number and designation of shares of any series of preferred stock. The

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Board, within limits and restrictions stated in any resolution of the Board, originally fixing the number of shares constituting any series may increase or decrease, but not below the number of such series then outstanding, the shares of any subsequent series.

The Company had 86,994 shares of Preferred Stock issued which includes 944 shares of Preferred Stock in escrow as of June 30, 2023 and December 31, 2022. Among other terms, each share of Preferred Stock (i) earns an annual dividend of 8% on the “preference amount,” which initially is equal to the \$1,000 per-share purchase price and subject to increase, by having such dividends automatically accrete to, and increase, the outstanding preference amount, (ii) is entitled to a liquidation preference under certain circumstances, (iii) is convertible into shares of Common Stock by dividing the preference amount by \$1.20 per share under certain circumstances, and (iv) is subject to a redemption right or obligation under certain circumstances. Accumulated Preferred Stock dividends were \$2,353,883 and \$4,383,277 for the three and six months ended June 30, 2023, and \$1,766,575 and \$3,510,019 for the three and six months ended June 30, 2022, respectively.

Common Stock

The Company is authorized to issue 250,000,000 shares of Common Stock, par value \$0.001 per share. The Company had 71,730,449 shares of Common Stock issued, 70,590,451 shares of Common Stock outstanding, 920,150 shares of Common Stock in treasury, and 219,848 shares of Common Stock in escrow as of June 30, 2023, and 56,352,545 shares of Common Stock issued, 55,212,547 shares of Common Stock outstanding, 920,150 shares of Common Stock in treasury, and 219,848 shares of Common Stock in escrow as of December 31, 2022.

Employee Stock Option Plan

The Company previously adopted the Medicine Man Technologies, Inc. 2017 Equity Incentive Plan, as amended (the “Equity Plan”), which permits the Company to grant stock awards, incentive stock option awards (“ISO Awards”), non-statutory stock options, restricted stock, restricted stock units (“RSUs”), and performance stock units (“PSUs”) to certain qualifying employees and individuals. ISO Awards granted under the Equity Plan are generally granted with an exercise price equal to the market price of the Company’s stock at the date of grant, and the ISO Awards generally vest in four equal installments starting on the first anniversary of the grant date, subject to continuous service at the Company. ISO Awards under the Equity Plan generally have 10-year contractual terms and remain outstanding during the contractual life of the award unless forfeited prior to exercise, subject to the terms of the Equity Plan and the applicable award agreement. Effective May 3, 2023, the Company adopted and implemented the Medicine Man Technologies, Inc. 2023 Long-Term Incentive Plan (the “LTIP”), pursuant to which the Company awarded ISO Awards and PSUs to certain employees and management of the Company (the “LTIP Awards”). The LTIP Awards will vest over four years, with the ISO Awards vesting on each anniversary of the grant date and the PSU Awards to vest over four years on each anniversary of the grant date subject to satisfaction or completion of performance criteria set annually by the Board. The first installment of PSUs included in the LTIP Awards have assumed performance criteria has been met for the 2023 fiscal year, and 25% of the PSUs awarded in the LTIP Awards will vest on May 3, 2024.

The Company recognized \$2,845,691 and \$3,060,235 in expense for stock-based compensation from Common Stock options and Common Stock issued to employees, officers, and directors during the three and six months ended June 30, 2023, respectively.

The Company recognized \$697,842 and \$1,688,925, in expense for stock-based compensation from Common Stock options and Common Stock issued to employees, officers, and directors during the six months ended June 30, 2022, respectively.

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Stock option activity is summarized as follows:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2023	10,356,500	\$ 2.13	7.08	\$ 772,996
Granted	3,340,000	1.20	9.93	
Forfeited	(495,000)	2.80		
Vested	(462,500)	1.94		
Balance at June 30, 2023	12,739,000	\$ 1.91	7.42	\$ 326,485
Exercised	—	—	—	—
Exercisable at June 30, 2023	12,739,000	\$ 1.91	7.42	326,485

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on June 30, 2023 and December 31, 2022, respectively, and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their in-the-money options on June 30, 2023 and December 31, 2022. This amount will change in future periods based on the fair market value of the Company's shares and the number of options outstanding.

The Company uses the Black-Scholes option pricing model to estimate the fair value of the options granted during the six months ended June 30, 2023 and the year ended December 31, 2022, using the following ranges of assumptions.:

	June 30, 2023	December 31, 2022
Risk free rate	1.59%	1.58%
Expected dividend yield	0%	0%
Expected volatility	75.97%	75% - 80.75%
Expected option life	4.75 to 6.25 years	4.75 to 6.25 years

As permitted under ASC 718, the Company has an accounting policy to account for forfeitures when they occur.

The following table summarizes the number of unvested RSU awards as of June 30, 2023 and December 31, 2022 and the changes during the six months ended June 30, 2023:

Options	Shares	Weighted-Average Grant Date Fair Value
Unvested shares at January 1, 2023	—	\$ —
Granted	1,600,000	1.03
Exercised	—	—
Forfeited or expired	—	—
Vested	(400,000)	1.03
Unvested at June 30, 2023	1,200,000	\$ 1.03

Common Stock Issued as Compensation to Employees, Officers, and Directors

For the year ended December 31, 2022, the Company issued 717,546 shares of Common Stock valued at \$1,027,288 as compensation to its directors.

For the six months ended June 30, 2023, the Company issued 385,550 shares of Common Stock valued at \$397,117 as compensation to its directors.

[Table of Contents](#)Common and Preferred Stock Issued as Payment for Acquisitions

The Company issued an aggregate of 1,146,099 shares of Common Stock valued at \$1,948,620 in connection with the acquisition of the assets of Drift during 2022.

On February 9, 2022, the Company issued 7,116,564 shares of Common Stock valued at \$11,600,000 for the acquisition of MCG. The Company also issued 29,160 shares of Common Stock valued at \$47,531 following closing for a purchase price adjustment required by the MCG Merger Agreement.

On May 31, 2022, the Company issued 1,670,230 shares of Common Stock valued at \$1,900,000, of which 219,847 shares valued at \$288,000 were placed in escrow, for the acquisition of Urban Dispensary.

On May 11, 2023, the Company issued 2,884,615 shares of Common Stock valued at \$3,150,000 for the acquisition of Smokey's.

On June 1, 2023, the Company issued 7,619,047 shares of Common Stock valued at \$8,000,000 for the acquisition of Everest.

On June 15, 2023, the Company issued 4,488,691 shares of Common Stock valued at \$4,488,692 for the acquisition of Standing Akimbo.

Warrants

The Company accounts for Common Stock purchase warrants in accordance with ASC 480, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, Distinguishing Liabilities from Equity*. The Company estimates the fair value of warrants at date of grant using the Black-Scholes option pricing model. There is a moderate degree of subjectivity involved when using option pricing models to estimate the warrants, and the assumptions used in the Black Scholes option-pricing model are moderately judgmental.

For the year ended December 31, 2021, the Company issued warrants to purchase an aggregate of 5,531,250 shares of Common Stock as consideration for the Star Buds Acquisition. These warrants have an exercise price of \$1.20 per share and expiration dates five years from the dates of issuance. In addition, the Company issued a warrant to purchase an aggregate of 1,500,000 shares of Common Stock to Altmore in connection with entering into a loan agreement. This warrant has an exercise price of \$2.50 per share and expires five years from the date of issuance. The Company estimated the fair value of these warrants at date of grant using the Black-Scholes option pricing model using the following inputs: (i) stock price on the date of grant of \$1.20 and \$2.50, respectively, (ii) the contractual term of the warrant of five years, (iii) a risk-free interest rate ranging between 0.21% - 1.84% and (iv) an expected volatility of the price of the underlying Common Stock ranging between 157.60% - 194.56%. No new warrants were issued as of June 30, 2023.

The following table reflects the change in Common Stock purchase warrants for the period ended June 30, 2023:

	Equity Classified Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance as of December 31, 2022	7,218,750	\$ 1.76	2.74
Warrants exercised	—	—	—
Warrants forfeited/expired	(187,500)	—	—
Warrants issued	—	—	—
Balance as of June 30, 2023	<u>7,031,250</u>	<u>\$ 1.67</u>	<u>2.63</u>

14. Earnings per share (Basic and Dilutive)

The Company computes net income (loss) per share in accordance with ASC 260, Earnings per Share. ASC 260 requires presentation of both basic and diluted Earnings Per Share (“EPS”) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to Common Stockholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

The following is a reconciliation of the numerator and denominator used in the basic and diluted EPS calculations for the three and six months ended June 30, 2023 and 2022.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Numerator:				
Net income (loss)	\$ (6,607,524)	\$ 33,840,983	\$ (4,862,202)	\$ 7,062,281
Less: Accumulated preferred stock dividends for the period	(2,353,883)	(1,766,575)	(4,383,277)	(3,510,019)
Net income (loss) attributable to common stockholders	<u>\$ (8,961,407)</u>	<u>\$ 32,074,408</u>	<u>\$ (9,245,479)</u>	<u>\$ 3,552,262</u>
Denominator:				
Weighted-average shares of common stock	<u>60,538,317</u>	<u>49,178,494</u>	<u>57,999,461</u>	<u>49,178,494</u>
Basic earnings (loss) per share	<u>\$ (0.15)</u>	<u>\$ 0.65</u>	<u>\$ (0.16)</u>	<u>\$ 0.07</u>
Numerator:				
Net income (loss) attributable to common stockholders – Basic	(8,961,407)	32,074,408	(9,245,479)	3,552,262
Add: Investor note accrued interest	421,512	—	843,026	—
Add: Investor note amortized debt discount	2,088,386	—	4,088,319	—
Less: Loss on derivative liability related to investor note	(1,468,083)	—	(9,969,768)	—
Net income (loss) attributable to common stockholders – dilutive	<u>\$ (7,919,592)</u>	<u>\$ 32,074,408</u>	<u>\$ (14,283,902)</u>	<u>\$ 3,552,262</u>
Denominator:				
Weighted-average shares of common stock	60,538,317	49,178,494	57,999,461	49,178,494
Dilutive effect of investor notes	45,772,777	—	47,340,185	—
Dilutive effect of warrants	—	1,483,994	—	1,483,994
Dilutive effect of options	—	1,114,415	—	1,114,415
Dilutive effect of preferred stock	—	81,704,765	—	81,704,765
Diluted weighted-average shares of common stock	<u>106,311,094</u>	<u>133,481,667</u>	<u>105,339,646</u>	<u>133,481,667</u>
Diluted earnings (loss) per share	<u>\$ (0.07)</u>	<u>\$ 0.24</u>	<u>\$ (0.14)</u>	<u>\$ 0.03</u>

Basic net loss per share attributable to common stockholders is computed by dividing reported net loss attributable to common stockholders by the weighted average number of common shares outstanding for the reported period. Note that for purposes of basic earnings (loss) per share calculation, shares of preferred stock, warrants, options, and restricted stock units are excluded from the calculation for the three and six months ended June 30, 2023 and 2022, as the inclusion of the common share equivalents would be anti-dilutive.

15. Tax Provision

The following table summarizes the Company's income tax expense and effective tax rates for three and six months ended June 30, 2023 and June 30, 2022:

	Three Months Ended June 30,	
	2023	2022
Income (loss) before income taxes	\$ (1,464,965)	\$ 38,246,945
Income tax expense	5,142,559	4,405,962
Effective tax rate	(351.04)%	11.52%

	Six Months Ended June 30,	
	2023	2022
Income (loss) before income taxes	\$ 4,942,535	\$ 12,728,137
Income tax expense	9,804,737	5,665,856
Effective tax rate	(198)%	44.51%

The Company has computed its provision for income taxes under the discrete method which treats the year-to-date period as if it were the annual period and determines the income tax expense or benefit on that basis. The discrete method is applied when application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. We believe that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as the estimated annual effective tax rate method is not reliable due to the high degree of uncertainty in estimating annual pre-tax income due to the early growth stage of the business.

Due to its cannabis operations, the Company is subject to the limitations of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

The effective tax rate for the three months and nine months ended June 30, 2023 varies from the three months and nine months ended June 30, 2022 primarily due to the change in nondeductible expenses as a proportion of total expenses in the current year. The Company incurs expenses that are not deductible due to IRC Section 280E limitations which results in significant income tax expense.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all the deferred tax assets will not be realized. The Company's valuation allowance represents the amount of tax benefits that are likely to not be realized. Management assesses the need for a valuation allowance each period and continues to have a full valuation allowance on its deferred tax assets as of June 30, 2023.

With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2017.

16. Related Party Transactions

Transactions with Jonathan Berger

On April 5, 2023, the Company issued 50,971 shares of Common Stock valued at \$52,500 to Mr. Berger as compensation for service on the Board. On May 3, 2023, the Company issued 12,136 shares of Common Stock valued at \$12,500 to Mr. Berger as compensation for service as the Chair of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee of the Board.

On May 4, 2022, and June 14, 2022, the Company issued 40,463 shares of Common Stock valued at \$70,001 and 22,728 shares of Common Stock valued at \$35,001, respectively, to Mr. Berger as compensation for service on the Board. On June 24, 2022, the Company issued 19,085 shares of Common Stock valued at \$25,001 to Mr. Berger as compensation for service as the Chair of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance

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Committee of the Board. On September 22, 2022, the Company issued 102,355 shares of Common Stock valued at \$100,000 to Mr. Berger as compensation for service as Lead Independent Director of the Board.

Transactions with Jeffrey Cozad and Entities Affiliated with Jeffrey Cozad

On February 26, 2021, the Company entered into a Securities Purchase Agreement (the “CRW SPA”) with CRW pursuant to which the Company issued and sold 25,350 shares of Series A Preferred Stock to CRW at a price of \$1,000 per share for aggregate gross proceeds of \$25,350,000. The transaction made CRW a beneficial owner of more than 5% of the Company’s common stock. The Company granted CRW certain demand and piggyback registration rights with respect to the shares of common stock issuable upon conversion of the Series A Preferred Stock under the CRW SPA. On the same date, the Company entered into a letter agreement with CRW, granting CRW the right to designate one individual for election or appointment to the Board and Board observer rights. Under the letter agreement, for as long as CRW has the right to designate a Board member, if the Company, directly or indirectly, plans to issue, sell or grant any securities or options to purchase any of its securities, CRW has a right to purchase its pro rata portion of such securities, based on the number of shares of Series A Preferred Stock beneficially held by CRW on the applicable date on an as-converted to common stock basis divided by the total number of shares of common stock outstanding on such date on an as-converted, fully-diluted basis (taking into account all outstanding securities of the Company regardless of whether the holders of such securities have the right to convert or exercise such securities for common stock at the time of determination). Further, under the letter agreement, the Company paid CRW Capital, LLC, the sole manager of CRW and a holder of a carried interest in CRW, a monitoring fee equal to \$150,000 in monthly installments of \$12,500. The Company paid CRW a monitoring fee of \$25,000 during 2022 and \$0 monitoring fees during 2023. On March 14, 2021, the Board appointed Jeffrey A. Cozad as a director to fill a vacancy on the Board. Mr. Cozad is a co-manager and owns 50% of CRW Capital, LLC, and he shares voting and disposition power over the shares of Series A Preferred Stock held by CRW with Mr. Rubin. Mr. Cozad and his family members indirectly own membership interests in CRW.

On December 7, 2021, the Company entered into a Securities Purchase Agreement with Cozad Investments, L.P. pursuant to which the Company issued an Investor Note in the aggregate principal amount of \$250,000 to Cozad Investments, L.P. for \$245,000 in cash. The Investor Note bears interest at 13% per year payable quarterly commencing March 31, 2022 in cash for an amount equal to the amount payable on such date as if the Investor Note was subject to an annual interest rate of 9% with the remainder of the accrued interest payable as an increase to the principal amount of the Note. Mr. Cozad is the majority owner of Cozad Investments, L.P. and a member of the Board.

On April 5, 2023, the Company issued 50,971 shares of Common Stock valued at \$52,500 to Mr. Cozad as compensation for service on the Board. On May 4, 2022, and June 14, 2022, the Company issued 40,463 shares of Common Stock valued at \$70,001 and 22,728 shares of Common Stock valued at \$35,001, respectively, to Mr. Cozad as compensation for service on the Board.

Transactions with Justin Dye and Entities Affiliated with Justin Dye

The Company has participated in several transactions involving Dye Capital, Dye Capital Cann Holdings, LLC (“Dye Cann I”), Dye Capital Cann Holdings II, LLC (“Dye Cann II”), and Dye Capital LLLP (“Dye LLLP”). Justin Dye, the Company’s former Chief Executive Officer, current Chairman of the Board, and one of the largest beneficial owners of Common Stock and Preferred Stock, controls Dye LLLP and Dye Capital, and Dye Capital controls Dye Cann I and Dye Cann II. Dye Cann I is the largest holder of the Company’s outstanding Common Stock. Dye Cann II is a significant holder of our Preferred Stock. Mr. Dye has sole voting and dispositive power over the securities held by Dye Capital, Dye Cann I, and Dye Cann II.

The Company entered into a Securities Purchase Agreement with Dye Cann I on June 5, 2019, (as amended, the “Dye Cann I SPA”) pursuant to which the Company agreed to sell to Dye Cann I up to between 8,187,500 and 10,687,500 shares of Common Stock in several tranches at \$2.00 per share and warrants to purchase 100% of the number of shares of Common Stock sold at a purchase price of \$3.50 per share. At the initial closing on June 5, 2019, the Company sold to Dye Cann I 1,500,000 shares of Common Stock and warrants to purchase 1,500,000 shares of Common Stock for gross proceeds of \$3,000,000, and the Company has consummated subsequent closings for an aggregate of 9,287,500 shares of Common Stock and warrants to purchase 9,287,500 shares of Common Stock for aggregate gross proceeds of \$18,575,000.

to the Company. The Company and Dye Cann I entered into a first amendment to the Dye Cann I SPA on July 15, 2019, a second amendment to the Dye Cann I SPA on May 20, 2020, and a Consent, Waiver and Amendment on December 16, 2020. At the time of the initial closing under the Dye Cann I SPA, Justin Dye became a director and the Company's Chief Executive Officer.

The Company granted Dye Cann I certain demand and piggyback registration rights with respect to the shares of Common Stock sold under the Dye Cann I SPA and issuable upon exercise of the warrants sold under the Dye Cann I SPA. The Company also granted Dye Cann I the right to designate one or two individuals for election or appointment to the Company's board of directors (the "Board") and Board observer rights. Further, under the Dye Cann I SPA, until June 5, 2022, if the Company desires to pursue debt or equity financing, the Company must first give Dye Cann I an opportunity to provide a proposal to the Company with the terms upon which Dye Cann I would be willing to provide or secure such financing. If the Company does not accept Dye Cann I's proposal, the Company may pursue such debt or equity financing from other sources but Dye Cann I has a right to participate in such financing to the extent required to enable Dye Cann I to maintain the percentage of Common Stock (on a fully-diluted basis) that it then owns, in the case of equity securities, or, in the case of debt, a pro rata portion of such debt based on the percentage of Common Stock (on a fully-diluted basis) that it then owns. The warrants granted to Dye Cann I pursuant to the Dye Cann I SPA expired on June 5, 2022.

The Company entered into a Securities Purchase Agreement (as amended, the "Dye Cann II SPA") with Dye Cann II on November 16, 2020 pursuant to which the Company agreed to sell to Dye Cann II shares of Preferred Stock in one or more tranches at a price of \$1,000 per share. The Company and Dye Cann II entered into an amendment to the Dye Cann II SPA on December 16, 2020, a second amendment to the Dye Cann II SPA on February 3, 2021, and a third amendment to the Dye Cann II SPA on March 30, 2021. The Company issued and sold to Dye Cann II 7,700 shares of Preferred Stock on December 16, 2020, 1,450 shares of Preferred Stock on December 18, 2020, 1,300 shares of Series Preferred Stock on December 22, 2020, 3,100 shares of Preferred Stock on February 3, 2021, 1,300 shares of Preferred Stock on February 25, 2021, 2,500 shares of Preferred Stock on March 2, 2021 and 4,000 shares of Preferred Stock on March 30, 2021. As a result, the Company issued and sold an aggregate of 21,350 shares of Preferred Stock to Dye Cann II for aggregate gross proceeds of \$21,350,000.

The Company granted Dye Cann II certain demand and piggyback registration rights with respect to the shares of Common Stock issuable upon conversion of the Preferred Stock under the Dye Cann II SPA. Further, the Company granted Dye Cann II the right to designate one or more individuals for election or appointment to the Board and Board observer rights.

On December 16, 2020, the Company entered into a Secured Convertible Note Purchase Agreement with Dye Capital and issued and sold to Dye Capital a Convertible Note and Security Agreement in the principal amount of \$5,000,000. On February 26, 2021, Dye Capital elected to convert the \$5,000,000 principal amount and the \$60,250 of accrued but unpaid interest under the Convertible Promissory Note and Security Agreement under its terms and Dye Capital and the Company entered into a Conversion Notice and Agreement pursuant to which the Company issued 5,060 shares of Preferred Stock to Dye Capital and also paid Dye Capital \$230.97 in cash in lieu of issuing any fractional shares of Series Preferred Stock upon conversion.

On May 27, 2023, the Company entered into an agreement with Mr. Dye to provide for the compensation of Mr. Dye as the Chairman of the Board (the "Chair Agreement"). The Chair Agreement provides that Mr. Dye will be entitled to annual compensation in the amount of \$300,000, payable at the option of Mr. Dye in cash, common stock, or restricted stock units. The Company will pay the compensation owed pursuant to the Chair Agreement semi-annually in accordance with the Company's director compensation policy and schedule. The next payment is scheduled to occur on or around September 1, 2023. The Chair Agreement also contains a termination fee of \$350,000, payable in cash, for which the Company will be liable in the event Mr. Dye is terminated as Chair of the Board other than for Cause (as defined in the Chair Agreement) on or before May 27, 2024. Pursuant to the Chair Agreement, the Company also accelerated the last vesting period of Mr. Dye's outstanding stock option award granted in December 2019, and Mr. Dye has 2,000,000 stock option awards vested and outstanding as of June 30, 2023.

On June 13, 2023, Dye Capital LLLP, an entity owned by Mr. Dye, indirectly provided a loan in the amount of approximately \$2.3 million to Lakewood Wadsworth Partners, LLC ("Lakewood Landlord") to acquire property in the Lakewood neighborhood of Denver, Colorado for the purpose of leasing such property to the Company. The Company is

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obligated to make monthly rental payments of \$22,649 for the first five years of the lease term to Lakewood Landlord, and such rental payments will be used to pay down the loan. Rental payments pursuant to this lease commence in the third quarter of 2023.

We also acquire certain advertising and marketing services from Tella Digital, an on-premises digital experience solution, of which Mr. Dye is a partial owner and Chairman of the board of directors. For the periods ended June 30, 2023, the Company recorded expenses of \$119,288 and \$290,496, respectively, with Tella Digital, as compared to \$98,588 and \$382,622 for the same periods in 2022.

Transactions with Jeffrey Garwood

On December 7, 2021, the Company entered into a Securities Purchase Agreement with Jeff Garwood pursuant to which the Company issued an Investor Note in the aggregate principal amount of \$300,000 to Mr. Garwood for \$294,000 in cash. The Investor Note bears interest at 13% per year paid quarterly commencing March 31, 2022 in cash for an amount equal to the amount payable on such date as if the Note was subject to an annual interest rate of 9% with the remainder of the accrued interest payable as an increase to the principal amount of the Note. Mr. Garwood is a member of the Board.

On April 5, 2023, the Company issued 50,971 shares of Common Stock valued at \$52,500 to Mr. Garwood as compensation for service on the Board. On May 4, 2022, and June 14, 2022, the Company issued 40,463 shares of Common Stock valued at \$70,001 and 22,728 shares of Common Stock valued at \$35,001, respectively, to Mr. Garwood, as compensation for service on the Board.

Transactions with Entities Affiliated with Nirup Krishnamurthy

We acquire certain advertising and marketing services from Tella Digital, an on-premises digital experience solution, of which Mr. Krishnamurthy is a partial owner. For the periods ended June 30, 2023, the Company recorded expenses of \$119,288 and \$290,496, respectively, with Tella Digital, as compared to \$98,588 and \$382,622 for the same periods in 2022.

On May 24, 2023, the Company entered into an Amended and Restated Employment Agreement with Mr. Krishnamurthy following his appointment as Chief Executive Officer (the "CEO Agreement"). Pursuant to the CEO Agreement, the Company granted Mr. Krishnamurthy an additional 800,000 stock options and 1,600,000 restricted stock units under the Equity Plan. The stock options vest in equal installments over four years starting on the first anniversary of the effective date of the CEO Agreement, and the restricted stock units vest in four equal installments, with the first tranche vesting immediately upon execution of the CEO Agreement and the remainder to vest on each anniversary of the effective date of the CEO Agreement.

Transactions with Paul Montalbano

On April 5, 2023, the Company issued 50,971 shares of Common Stock valued at \$52,500 to Mr. Montalbano as compensation for service on the Board. On May 4, 2022, and June 14, 2022, the Company issued 40,463 shares of Common Stock valued at \$70,001 and 22,728 shares of Common Stock valued at \$35,001, respectively, to Mr. Montalbano, as compensation for service on the Board.

Transactions with Pratap Mukharji

On December 7, 2021, the Company entered into a Securities Purchase Agreement with Pratap Mukharji pursuant to which the Company issued an Investor Note in the aggregate principal amount of \$200,000 to Mr. Mukharji for \$196,000 in cash. The Investor Note bears interest at 13% per year paid quarterly commencing March 31, 2022 in cash for an amount equal to the amount payable on such date as if the Note was subject to an annual interest rate of 9% with the remainder of the accrued interest payable as an increase to the principal amount of the Note. Mr. Mukharji is a member of the Board.

On April 5, 2023, the Company issued 50,971 shares of Common Stock valued at \$52,500 to Mr. Mukharji as compensation for service on the Board. On May 4, 2022, and June 14, 2022, the Company issued 40,463 shares of

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Common Stock valued at \$70,001 and 22,728 shares of Common Stock valued at \$35,001, respectively, to Mr. Mukharji, as compensation for service on the Board.

Transactions with Marc Rubin and Entities Affiliated with Marc Rubin

On February 26, 2021, the Company entered into the CRW SPA with CRW, of which Marc Rubin is a beneficial owner. Pursuant to the CRW SPA, the Company issued and sold 25,350 shares of Series A Preferred Stock to CRW at a price of \$1,000 per share for aggregate gross proceeds of \$25,350,000. The transaction made CRW a beneficial owner of more than 5% of the Company's common stock. The Company granted CRW certain demand and piggyback registration rights with respect to the shares of common stock issuable upon conversion of the Series A Preferred Stock under the CRW SPA. Effective February 4, 2022, the Company registered the resale of the shares of common stock issuable upon conversion of the Series A Preferred Stock on a Form S-3. Also on February 26, 2021, the Company entered into a letter agreement with CRW, granting CRW the right to designate one individual for election or appointment to the Board and Board observer rights. Under the letter agreement, for as long as CRW has the right to designate a Board member, if the Company, directly or indirectly, plans to issue, sell or grant any securities or options to purchase any of its securities, CRW has a right to purchase its pro rata portion of such securities, based on the number of shares of Series A Preferred Stock beneficially held by CRW on the applicable date on an as-converted-to-common-stock basis divided by the total number of shares of common stock outstanding on such date on an as-converted, fully-diluted basis (taking into account all outstanding securities of the Company regardless of whether the holders of such securities have the right to convert or exercise such securities for common stock at the time of determination). Further, under the letter agreement, the Company paid CRW Capital, LLC, the sole manager of CRW and a holder of a carried interest in CRW, a monitoring fee equal to \$25,000 in 2022 and \$0 monitoring fees in 2023. Mr. Rubin is a co-manager and 50% owner of CRW Capital, LLC, and he shares voting and disposition power over the shares of Series A Preferred Stock held by CRW with Mr. Cozad.

On December 7, 2021, the Company entered into a Securities Purchase Agreement with The Rubin Revocable Trust U/A/D 05/09/2011 (the "Rubin Revocable Trust") pursuant to which the Company issued an Investor Note in the aggregate principal amount of \$100,000 to the Rubin Revocable Trust for \$98,000 in cash. The Investor Note bears interest at 13% per year payable quarterly commencing March 31, 2022 in cash for the amount equal to the amount payable on such date as if the Investor Note was subject to an annual interest rate of 9% with the remainder of the accrued interest payable as an increase to the principal amount of the Note. Mr. Rubin is the majority owner of the Rubin Revocable Trust and a member of the Board. In October 2022, the Board appointed Mr. Rubin as a director to fill a vacancy on the Board.

On April 5, 2023, the Company issued 69,125 shares of Common Stock valued at \$71,200 to Mr. Rubin as compensation for service on the Board.

Transactions with Bradley Stewart

On April 5, 2023 and May 3, 2023, the Company issued 13,825 shares of Common Stock valued at \$14,240 on each date to Mr. Stewart as compensation for service on the Board.

Transactions with Star Buds Parties

The Company has participated in several transactions involving entities owned or affiliated with one or more of its former directors that are affiliated with Star Buds and/or the Star Buds Acquisitions. These individuals include: (i) Brian Ruden, a former director of the Company as of October 2022, and (ii) Salim Wahdan, a former director of the Company as of March 2023 (hereinafter referred to as the "Star Buds Affiliates"). Both Brian Ruden and Salim Wahdan had an ownership stake in the Star Buds companies acquired by the Company between December 2020 and March 2021.

Between December 17, 2020 and March 2, 2021, the Company's wholly-owned subsidiary SBUD LLC acquired the Star Buds assets. The aggregate purchase price for the Star Buds assets was \$118,000,000, paid as follows: (i) \$44,250,000 in cash at the applicable closings, (ii) \$44,250,000 in deferred cash, also referred to in this report as "seller note(s)," (iii) 29,506 shares of Series A Preferred Stock, of which 25,078 shares were issued at the applicable closings and 4,428 shares were held back by the Company as collateral for potential indemnification obligations pursuant to the applicable purchase agreements. In addition, the Company issued warrants to purchase an aggregate of 5,531,250 shares of common stock to

the sellers. Each party's interests in the seller notes is as follows: (i) Brian Ruden: 31% and (ii) Salim Wahdan: 3.5%. The Company issued warrants to purchase an aggregate of (i) 1,715,936 shares of common stock to Mr. Ruden and (ii) 193,929 shares of common stock to Mr. Wahdan.

As of June 30, 2023 and December 31, 2022, the Company owed an aggregate principal amount of \$44,250,000 under the seller notes and held 944 shares of Series A Preferred Stock in escrow as collateral for potential indemnification obligations pursuant to the applicable purchase agreements. The Company paid \$1,327,500 and \$2,655,000 in interest pursuant to the seller notes for the three and six months ended June 30, 2023, respectively, and \$1,082,694 and \$2,165,387 for the three and six months ended June 30, 2022. The Company has not paid any principal as of June 30, 2023 and December 31, 2022.

In connection with acquiring the Star Buds assets the Company also assumed and acquired a number of leases for which one or more of the Star Buds Affiliates serve as landlord or maintain an ownership interest in the landlord entity. The Company has entered into a lease with each of 428 S. McCulloch LLC, Colorado Real Estate Holdings LLC, 5844 Ventures LLC, 5238 W 44th LLC, 4690 Brighton Blvd LLC, 14655 Arapahoe LLC and Montview Real Estate LLC, on substantially the same terms. Each of the leases is for an initial three-year term. The lease with 428 S. McCulloch LLC is for the Company's Pueblo West Star Buds location and was effective on December 17, 2020 ("Pueblo West Lease"). The leases with Colorado Real Estate Holdings LLC ("Niwot Lease") and 5844 Ventures LLC ("Commerce City Lease") are for the Company's Niwot and Commerce City Star Buds location, respectively, and were effective on December 18, 2020. The lease with 5238 W 44th LLC is for the Company's Lakeside Star Buds location and was effective on February 3, 2021 ("Lakeside Lease"). The lease with 4690 Brighton Blvd LLC is for the Company's Brighton store in north Denver and was effective on February 3, 2021 ("Brighton Lease"). The leases with 14655 Arapahoe LLC ("Arapahoe Lease") and Montview Real Estate LLC ("Aurora Lease") are for the Company's Arapahoe and Aurora locations, respectively, and were effective on March 2, 2021. The Pueblo West Lease, Lakeside Lease, and Commerce City Lease each provide for a monthly rent payment of \$5,000 with an aggregate of \$180,000 during the initial term of the leases. The Niwot Lease provides for a monthly rent payment of \$6,779 with an aggregate of \$244,044 during the initial term of the lease. The Arapahoe Lease provides for a monthly rent payment of \$12,367 with an aggregate of \$445,212 during the initial term of the lease. The Aurora Lease provides for a monthly rent of \$6,250 with an aggregate of \$225,000 during the initial term of the lease. The Brighton Lease provides for a monthly rent payment of \$7,250 with an aggregate of \$261,000 during the initial term of the lease. SBUD LLC made aggregate rental payments pursuant to these leases of \$142,938 and \$285,876 for the three and six months ended June 30, 2023 and 2022. In addition, SBUD LLC must pay each landlord's expenses and disbursements incurred in connection with the ownership, operation, maintenance, repair and replacement of the premises. SBUD LLC has the option to renew each lease for two additional three-year terms with escalation. The Company has an option to purchase the premises at fair market value at any time during the lease term and also has a right of first refusal if the landlords desire to sell the premises to a third party.

On December 17, 2020, SBUD LLC entered into a Trademark License Agreement with Star Brands LLC ("Star Brands") under which Star Brands licenses certain trademarks to SBUD LLC effective as of the closing of the acquisitions of all of the Star Buds assets. SBUD LLC has no payment obligation under this agreement. On June 15, 2023, the Company entered into a Licensing Agreement with Star Brands pursuant to which Star Brands licenses additional trademarks to the Company for the exclusive right to sell such licensed products in New Mexico (the "Star Brands Agreement"). Pursuant to the Star Brands Agreement, the Company is required to make quarterly payments to Star Brands for use of such exclusive license. The Company has not made any payments pursuant to the Star Brands Agreement as of June 30, 2023. Mr. Ruden is a partial owner of Star Brands.

In connection with the Star Buds Acquisitions, the Company granted Mr. Ruden and Naser Joudeh, another recipient of Preferred Stock from the Star Buds Acquisitions, the right to jointly designate two or three individuals for election or appointment to the Board, depending on the size of the Board and subject to ownership limitations.

17. Commitments and Contingencies

Pursuant to the Everest Purchase Agreement, the Company may be required to make a potential "earn-out" payment of up to an additional \$8 million, payable in Company common stock, based on the revenue performance of certain retail stores of Everest for 12 months following such stores opening for business. Management currently estimates the expected earn-out payment to equal approximately \$2.5 million based on current projections.

18. Segment Information

The Company has three identifiable segments as of June 30, 2023; (i) retail, (ii) wholesale and (iii) and other. The retail segment represents our dispensaries which sell merchandise directly to customers via retail locations and e-commerce portals. The wholesale segment represents our manufacturing, cultivation, and wholesale business which sells merchandise to customers via e-commerce portals, a retail location, and a manufacturing facility. The other segment derives its revenue from in-store advertisements and vendor promotions offered in the Company's retail dispensaries.

The following information represents segment activity as of and for the three and six months ended June 30, 2023:

	For The Three Months Ended 30-Jun-23			
	Retail	Wholesale	Other	Total
External revenues	\$ 38,098,957	\$ 4,274,483	\$ 1,660	\$ 42,375,100
Depreciation and Intangible assets amortization	3,352,140	977,849	317,481	4,647,470
Segment profit	16,328,349	(256,865)	(17,536,449)	(1,464,965)
Segment assets	211,786,685	111,562,598	45,609,629	368,958,912

	For The Six Months Ended 30-Jun-23			
	Retail	Wholesale	Other	Total
External Revenues	73,919,068	8,333,408	123,560	82,376,036
Depreciation and Intangible assets amortization	7,256,992	2,703,500	838,375	10,798,867
Segment profit	27,726,704	(922,432)	(21,861,737)	4,942,535
Segment assets	211,786,685	111,562,598	45,609,629	368,958,912

The following information represents segment activity as of and for the three and six months ended June 30, 2022:

	For The Three Months Ended 30-Jun-22			
	Retail	Wholesale	Other	Total
External Revenues	38,138,799	6,080,843	43,750	44,263,392
Depreciation and Intangible assets amortization	2,582,418	163,580	226,683	2,972,681
Segment profit	16,462,794	93,131	17,285,058	33,840,983
Segment assets	188,903,224	64,211,139	65,033,618	318,147,981

	For The Six Months Ended 30-Jun-22			
	Retail	Wholesale	Other	Total
External Revenues	\$ 64,664,515	\$ 11,288,231	\$ 88,200	\$ 76,040,946
Depreciation and Intangible assets amortization	4,300,271	748,618	452,511	5,501,400
Segment profit	20,224,737	(328,733)	(12,833,723)	7,062,281
Segment assets	188,903,224	64,211,139	65,033,618	318,147,981

19. Subsequent Events

In accordance with FASB ASC 855-10, *Subsequent Events*, the Company has analyzed its operations subsequent to June 30, 2023 to the date these condensed consolidated financial statements were issued, and has determined that it does not have any material subsequent events to disclose in these consolidated financial statements.

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

The following discussion should be read in conjunction with our unaudited consolidated financial statements and notes thereto included herein and with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC. In addition to our historical unaudited condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in Part II, Item 1A, "Risk Factors." See also, "CAUTIONARY NOTE ABOUT FORWARD-LOOKING INFORMATION."

OVERVIEW OF THE COMPANY

Established in 2014 and headquartered in Denver, Colorado, Medicine Man Technologies, Inc., is a vertically integrated cannabis company with experienced retail leadership and operations in Colorado and New Mexico. The Company is focused on building a premier, vertically integrated cannabis company by taking its retail operating playbook to other states where it can develop a differentiated leadership position focused on assortment, value, and service. The Company is actively building a house of brands that includes retail banners, proprietary products, and licensed brands, while also preserving the ability to control and maintain the quality of its brands through vertical integration. The Company fosters a high-performance culture that combines customer-centric thinking and data science to test, measure, and drive effective business decisions and outcomes.

Q2 Highlights and Recent Developments

During the second quarter of 2023, the Company continued to strengthen operations, executing on its retail playbook and responding to ongoing market pressure by furthering supply chain operating efficiencies with improved cultivation yields as well as advancing its new off-premise storage facility to improve chain-wide financial performance and inventory management with capabilities to scale.

The Company also increased market share in Colorado and New Mexico by completing three acquisitions that expanded its total retail footprint to 60 stores across Colorado and New Mexico. In May 2023, the Company acquired two new retail dispensaries located in Fort Collins, Colorado, and Garden City, Colorado, from Smokey's. In June 2023, the Company acquired the Standing Akimbo branded medical dispensary located in Denver, Colorado. Also in June 2023, the Company expanded its New Mexico operations with the acquisition of Everest, which added 14 retail dispensaries, one cultivation facility, and one manufacturing facility to the Company's New Mexico portfolio, bringing the Company's total retail footprint to 28 stores in Colorado and 32 stores in New Mexico.

The Company appointed Nirup Krishnamurthy, who previously served as the Company's President and Chief Operating Officer, as Chief Executive Officer in May 2023. It also added a new Executive Vice President of Commercial Sales to its executive leadership team to help execute its brand strategy and expand its wholesale presence in Colorado and New Mexico. Further, the Company expanded its brand portfolio offering with the launch of its newest internally developed brand, EDW or Every Day Weed, in Colorado and entry into a licensing agreement to become the exclusive retailer for Kaviar branded products in New Mexico.

During the third quarter of 2023 to date, the Company opened an additional Standing Akimbo branded medical dispensary located in Colorado Springs, Colorado and another retail dispensary operating under the R. Greenleaf banner located in Hobbs, New Mexico. In July 2023, Nirup Krishnamurthy was elected to serve as Chair of the US Cannabis Council, which

provides the Company and other industry leaders the opportunity to participate in the development of cannabis policy and the greater federal regulatory framework.

RESULTS OF OPERATIONS – CONSOLIDATED

The following table sets forth the Company’s selected consolidated financial results for the periods, and as of the dates, indicated. The (i) consolidated statements of operations for the three and six months ended June 30, 2023 and June 30, 2022 and (ii) consolidated balance sheet as of June 30, 2023 and December 31, 2022 have been derived from and should be read in conjunction with the consolidated financial statements and accompanying notes presented in this report.

The Company’s consolidated financial statements have been prepared in accordance with GAAP and on a going-concern basis that contemplates continuity of operations and realization of assets and liquidation of liabilities in the ordinary course of business.

QUARTER ENDED JUNE 30, 2023 COMPARED TO THE QUARTER ENDED JUNE 30, 2022

	For the Three Months Ended June 30,		2023 vs 2022	
	2023	2022	\$	%
Total revenue	\$ 42,375,100	\$ 44,263,392	\$ (1,888,292)	(4)%
Total cost of goods and services	17,856,050	19,106,944	(1,250,894)	(7)%
Gross profit	24,519,050	25,156,448	(637,398)	(3)%
Total operating expenses	19,561,659	16,120,798	3,440,861	21 %
Income (loss) from operations	4,957,391	9,035,650	(4,078,259)	(45)%
Total other income (expense)	(6,422,356)	29,211,295	(35,633,651)	(122)%
Provision for income taxes (benefit)	5,142,559	4,405,962	736,597	17 %
Net income (loss)	\$ (6,607,524)	\$ 33,840,983	\$ (40,448,507)	(120)%
Earnings (loss) per share attributable to common shareholders - basic	\$ (0.15)	\$ 0.65	\$ (0.80)	(123)%
Earnings (loss) per share attributable to common shareholders - diluted	\$ (0.15)	\$ 0.24	\$ (0.39)	(162)%
Weighted average number of shares outstanding - basic	60,538,317	49,178,494	—	—
Weighted average number of shares outstanding - diluted	60,538,317	133,481,667	—	—

Revenue

Revenues for the three months ended June 30, 2023 totaled \$42,375,100, including (i) retail sales of \$38,098,957 (ii) wholesale sales of \$4,274,483 and (iii) other operating revenues of \$1,660, compared to revenues of \$44,263,392, including (i) retail sales of \$38,138,799, (ii) wholesale sales of \$6,080,843, and (iii) other operating revenues of \$43,750 during the three months ended June 30, 2022, representing a decline of \$1,888,292 or 4%. The decrease in revenue as compared to the prior periods is primarily driven by overall decline in the Colorado market, which was also compounded by increasing cannabis licenses and competitors in the New Mexico market. State-wide Colorado sales declined by approximately 15% during the second quarter of 2023 as compared to the same period in 2022. Additional retail stores acquired and opened during 2023 helped offset declining sales, causing overall Retail revenue to remain relatively consistent for the quarters ended June 30, 2022 and June 30, 2023. Pricing pressure also contributed to the decline in overall revenue, with wholesale distillate pricing declining by approximately 25% for the quarter ended June 30, 2023 as compared to the prior period.

Cost of Goods and Services

Cost of goods and services for the three months ended June 30, 2023 totaled \$17,856,050 compared to cost of goods and services of \$19,106,944 during the three months ended June 30, 2022, representing a decrease of \$1,250,894 or 7%.

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Overall cost of goods and services decreased during the second quarter compared to the prior period due to cost and productivity improvements in the Company's operational facilities, primarily in its cultivation assets. During the first half of 2023, the Company applied its cultivation practices in New Mexico to its Colorado operations, allocating resources and talent between its Colorado and New Mexico operations to achieve greater productivity and cost savings in both states. Specifically, cultivation and manufacturing facilities costs (i.e., cost associated with labor, supplies, equipment, utilities, etc. and excluding rent and capital expenditures) decreased by approximately \$1,229,000 (\$575,000 in Colorado and \$654,000 in New Mexico) for the quarter ended June 30, 2023 as compared to the prior period.

Operating Expenses

Operating expenses for the three months ended June 30, 2023 totaled \$19,561,659, compared to operating expenses of \$16,120,798 during the three months ended June 30, 2022, representing an increase of \$3,440,861 or 21%. This increase is primarily attributed to higher selling, general and administrative ("SG&A") expenses associated with the increase in retail stores in Colorado and New Mexico. During the second quarter of 2023, the Company acquired 17 new retail stores, one new cultivation facility, and one new manufacturing facility. This increase in store count caused SG&A expenses to rise due to higher overhead costs. Professional services expenses, which is predominantly comprised of acquisition-related expenses, decreased in the second quarter of 2023 as compared to the prior period because expenses for the acquisitions completed in the first quarter of 2022 were incurred in the second quarter of 2022 due to timing of billing cycles.

Other Income (Expense), Net

Other expense, net for the three months ended June 30, 2023 totaled \$6,422,356 compared to other income, net of \$29,211,295 during the three months ended June 30, 2022, representing an increase in other expense of \$35,633,651 or 122%. The increase in other expenses is primarily driven by revaluation of the derivative liability related to the Investor Notes that was recognized as income of \$36,705,764 for the three months ended June 30, 2022, as compared to income recognized from the same derivative liability of \$1,468,083 for the three months ended June 30, 2023.

Net Income (Loss)

As a result of the factors discussed above, the Company generated net loss for the three months ended June 30, 2023 of \$6,607,524, as compared to net income of \$33,840,983 for the three months ended June 30, 2022.

YEAR TO DATE ENDED JUNE 30, 2023 COMPARED TO YEAR TO DATE ENDED JUNE 30, 2022

	For the Six Months Ended June 30,		2023 vs 2022	
	2023	2022	\$	%
Total revenue	\$ 82,376,036	\$ 76,040,946	\$ 6,335,090	8 %
Total cost of goods and services	34,824,320	39,946,995	(5,122,675)	(13)%
Gross profit	47,551,716	36,093,951	11,457,765	32 %
Total operating expenses	36,944,471	31,848,841	5,095,630	16 %
Income (loss) from operations	10,607,245	4,245,110	6,362,135	150 %
Total other income (expense)	(5,664,710)	8,483,027	(14,147,737)	(167)%
Provision for income taxes (benefit)	9,804,737	5,665,856	4,138,881	73 %
Net income (loss)	\$ (4,862,202)	\$ 7,062,281	\$ (11,924,483)	(169)%
Earnings (loss) per share attributable to common shareholders				
- basic	\$ (0.16)	\$ 0.07	\$ (0.23)	(328)%
Earnings (loss) per share attributable to common shareholders				
- diluted	\$ (0.16)	\$ 0.03	\$ (0.19)	(631)%
Weighted average number of shares outstanding - basic	57,999,461	49,178,494	—	—
Weighted average number of shares outstanding - diluted	57,999,461	133,481,667	—	—

Revenue

Revenues for the six months ended June 30, 2023 totaled \$82,376,036, including (i) retail sales of \$73,919,068 (ii) wholesale sales of \$8,333,408 and (iii) other operating revenues of \$123,560, compared to revenues of \$76,040,946, including (i) retail sales of \$64,664,515, (ii) wholesale of \$11,288,231, and (iii) other operating revenues of \$88,200 during the six months ended June 30, 2022, representing an increase of \$6,335,090 or 8%. This increase in revenue is primarily driven by completion of additional acquisition transactions and adult-use legalization taking effect in New Mexico in April 2022.

During the first half of 2023, the Company acquired 17 additional retail stores across its platform, and it acquired 15 additional retail stores during the same period of 2022. The Company's retail footprint totaled 60 stores as of June 30, 2023, as compared to 33 retail stores as of June 30, 2022, representing a substantial increase in the Company's revenue-generating asset base.

Adult-use cannabis sales became legal in New Mexico in April 2022, shortly after the Company entered the New Mexico market with the acquisition of R. Greenleaf. The Company, and the New Mexico market generally, experienced an increase in sales volume in New Mexico due to this legalization event, and the Company's revenue for the three and six months ended June 30, 2022 includes higher revenues than the same periods of 2023 due to this anomalous event. Since adult-use legalization took effect in April 2022, 354 new retail stores have opened in the New Mexico market as of June 2023, representing a 153% increase in open store count. This dilution has offset increases in revenue from adult-use sales due to market saturation and increased competition.

Cost of Goods and Services

Cost of goods and services for the six months ended June 30, 2023 totaled \$34,824,320 compared to cost of goods and services of \$39,946,995 during the six months ended June 30, 2022, representing a decrease of \$5,122,675 or 13%. Cost of goods and services for the six months ended June 30, 2023 decreased compared to the same period last year due to increased vertical integration in the Company's New Mexico operations and overall improvements to the Company's operational assets and processes.

Operating Expenses

Operating expenses for the six months ended June 30, 2023 totaled \$36,944,471, compared to operating expenses of \$31,848,841 during the six months ended June 30, 2022, representing an increase of \$5,095,630 or 16%. The increase is largely due to higher SG&A expenses associated with the increase in retail stores in Colorado and New Mexico. The Company's overall asset base as of June 30, 2023 increased by approximately 15% as compared to the prior period, largely driven by acquisition activity and organic store growth, which generated an increase in the Company's overall operating and overhead expenses. Expenses paid for professional services also decreased for the six months ended June 30, 2023 as compared to the prior period—this is largely due to an overall decrease in acquisition costs. The Company also pursued and completed a larger number of transactions for fewer operational assets during the six months ended June 30, 2022 as compared to June 30, 2023, consummating five acquisitions for 15 new retail dispensaries for the six months ended June 30, 2022 compared to the completion of three acquisitions for 17 new retail dispensaries for the six months ended June 30, 2022.

Other Income (Expense), Net

Other expense, net for the six months ended June 30, 2023 totaled \$5,664,710 compared to other income, net, of \$8,483,027 during the six months ended June 30, 2022, representing an increase in other expenses of \$14,147,737 or 167%. The increase in other expenses is primarily driven by revaluation of derivative liability related to the Investor Notes that was recognized as income of \$23,288,292 for the six months ended June 30, 2022, as compared to income of \$9,969,768 recognized from the same derivative liability for the six months ended June 30, 2023.

Net Income (Loss)

As a result of the factors discussed above, we generated net loss for the six months ended June 30, 2023 of \$4,862,202, compared to net income of \$7,062,281 for the six months ended June 30, 2022.

REVENUE BY SEGMENT

The Company has consolidated financial statements across its operating businesses with operating segments of retail, wholesale and other as set forth below.

	For the Three Months Ended June 30,		2023 vs 2022	
	2023	2022	\$	%
Retail	\$ 38,098,957	\$ 38,138,799	\$ (39,842)	(0)%
Wholesale	4,274,483	6,080,843	\$ (1,806,360)	(30)%
Other	1,660	43,750	\$ (42,090)	(96)%
Total revenue	<u>\$ 42,375,100</u>	<u>\$ 44,263,392</u>	<u>\$ (1,888,292)</u>	<u>(4)%</u>

	For the Six Months Ended June 30,		2023 vs 2022	
	2023	2022	\$	%
Retail	\$ 73,919,068	\$ 64,664,515	\$ 9,254,553	14 %
Wholesale	8,333,408	11,288,231	\$ (2,954,823)	(26)%
Other	123,560	88,200	\$ 35,360	40 %
Total revenue	<u>\$ 82,376,036</u>	<u>\$ 76,040,946</u>	<u>\$ 6,335,090</u>	<u>8 %</u>

Retail revenues increased by approximately 14% during the first half of 2023 compared to the same period in 2022. This increase in retail revenue is largely driven by the increase in the Company's revenue-generating asset base by acquisitions and new store openings.

Revenues for the wholesale segment steadily declined for the three and six months ended June 30, 2023 as compared to the same periods in 2022, decreasing by approximately 30% and 26%, respectively, as compared to the prior periods. The decrease in Wholesale revenue is attributable to wholesale pricing pressure, predominantly in the Colorado market. Wholesale prices in Colorado were down approximately 30% for the first half of 2023 as compared to the prior period, although early indicators from recent periods suggest downward wholesale pricing pressure may be stabilizing.

The fluctuations in Other revenue are due to changes in the amount of promotional engagement and activity in the Company's retail stores.

DRIVERS OF RESULTS OF OPERATIONS & KEY PERFORMANCE INDICATORS*Revenue*

The Company derives its revenue from three revenue streams: (i) Retail, which sells finished goods sourced internally and externally to the end consumer in retail stores; (ii) Wholesale, which is the cultivation of flower and biomass sold internally and externally and the manufacturing of biomass into distillate for integration into externally developed products, such as edibles and internally developed products such as vapes and cartridges under the Purplebee's brand; and (iii) Other, which includes other income and expenses from sales of vendor promotional programs within the Company's owned retail assets.

Gross Profit

Gross profit is revenue less cost of goods sold. Cost of goods sold includes costs directly attributable to product sales and includes amounts paid for finished goods such as flower, edibles, and concentrates, as well as manufacturing and

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cultivation labor, packaging, supplies and overhead such as rent, utilities and other related costs. Cannabis costs are affected by market supply. Gross margin measures our gross profit as a percentage of revenue.

Operating Income

Operating income consists of gross profit less operating expenses. Such operating expenses includes selling, general, and administrative expenses (SG&A), professional services, salary, and stock-based compensation expenses. Operating income measures the profitability of the Company's operating assets.

Operating Working Capital

Operating Working Capital is derived from current assets, which is adjusted to exclude cash and cash equivalents, less current liabilities, which is adjusted to exclude derivative liabilities and the current portion of long term debt. Operating Working Capital is a non-GAAP financial measure, please see the section entitled "Non-GAAP Measures" below.

Adjusted EBITDA

Adjusted EBITDA is derived from Operating Income, which is adjusted for one-time expenses including merger and acquisition and capital-raising costs, non-cash related compensation costs, goodwill impairment, costs related to discontinued operations, depreciation and amortization, and other one-time expenses. Adjusted EBITDA is a non-GAAP financial measure, please see the section entitled "Non-GAAP Measures" below.

NON-GAAP MEASURES AND RECONCILIATION

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), Adjusted EBITDA, and Operating Working Capital are non-GAAP measures and do not have standardized definitions under GAAP. The following information provides reconciliations for the supplemental non-GAAP financial measures, presented herein to the most directly comparable financial measures calculated and presented in accordance with GAAP. The Company has provided the 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 the Company believes it better explains the results of its core business. Management has evaluated the financial results both including and excluding the adjusted items and believe that the supplemental non-GAAP financial measures presented provide additional perspective and insight when analyzing the core operating performance of the business. These 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.

Reconciliation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income (loss)	\$ (6,607,524)	\$ 33,840,983	\$ (4,862,202)	\$ 7,062,281
Interest expense, net	7,890,439	7,489,205	15,636,294	14,791,459
Provision for income taxes	5,142,559	4,405,962	9,804,737	5,665,856
Other (income) expense, net of interest expense	(1,468,083)	(36,700,500)	(9,971,584)	(23,274,486)
Depreciation and intangible amortization	3,865,190	2,960,603	10,478,004	5,506,627
Earnings before interest, taxes, depreciation and amortization (EBITDA) (non-GAAP)	\$ 8,822,581	\$ 11,996,253	\$ 21,085,249	\$ 9,751,737
Non-cash stock compensation	2,845,691	697,842	3,060,235	1,688,925
Deal related expenses	733,718	1,656,529	1,929,520	3,913,463
Capital raise related expenses	-	41,312	35,068	605,632
Inventory adjustment to fair market value for purchase accounting	-	246,613	-	6,507,047
Severance	185,681	44,537	304,117	49,102
Retention program expenses	115,000	-	395,632	-
Employee relocation expenses	26,468	332	52,175	19,110
Other non-recurring items	1,085,005	338,050	1,477,028	334,632
Adjusted EBITDA (non-GAAP)	\$ 13,814,144	\$ 15,021,468	\$ 28,339,024	\$ 22,869,648
Revenue	42,375,100	44,263,392	82,376,036	76,040,946
<i>Adjusted EBITDA Percent</i>	<i>32.6%</i>	<i>33.9%</i>	<i>34.4%</i>	<i>30.1%</i>

	June 30, 2023	December 31, 2022
Current assets	\$ 66,532,198	\$ 71,735,033
Less: Cash and cash equivalents	(19,872,099)	(38,949,253)
Adjusted current assets (non-GAAP)	46,660,099	32,785,780
Current liabilities	\$ 49,771,329	\$ 47,381,308
Less: Derivative liabilities	(6,538,485)	(16,508,253)
Less: Current portion of long term debt	(6,583,334)	(2,250,000)
Adjusted current liabilities (non-GAAP)	36,649,510	28,623,055
Operating Working Capital (non-GAAP)	\$ 10,010,589	\$ 4,162,725

LIQUIDITY AND CAPITAL RESOURCES
Overview

As of June 30, 2023 and December 31, 2022, the Company had total current liabilities of \$49,771,329 and \$47,381,308, respectively. As of June 30, 2023 and December 31, 2022, the Company had cash and cash equivalents of \$19,872,099 and \$38,949,253, respectively to meet its current obligations. The Company's Operating Working Capital increased by \$5,847,864 for the six months ended June 30, 2023, or 140%, as compared to December 31, 2022.

The Company is a growth company, generating cash from operational revenue and capital raises. Cash is being reserved primarily for capital expenditures, facility improvements, acquisitions, and strategic investment opportunities. The Company predominantly relies on internal capital that is generated through revenue and any other internal sources of liquidity to meet its short-term and certain long-term capital demands. Management believes the Company's current

projected growth, revenue from consummated acquisitions, and revenue from operations will be sufficient to meet its current obligations as they become due. The Company relies on a combination of internal and external capital to meet its long-term obligations, with internal liquidity sourced from revenue from operations and external financing acquired from various sources, including commercial loan arrangements, capital raises and private placement transactions, and cash from the Investor Notes. Management believes this combination of internal revenue and external liquidity will be sufficient to meet the Company's long-term obligations; however, it is possible the Company will seek additional external financing to meet strategic investment needs in the future. Additionally, the Company anticipates receiving an employee retention tax credit for approximately \$5 million during the third quarter of 2023, which will increase the Company's cash position in the period it is received.

Trends Impacting Liquidity

While management believes that the Company has sufficient liquidity to support its capital needs, certain factors may positively or negatively impact the Company's liquidity and financing opportunities.

Due to our participation in the cannabis industry and the regulatory framework governing cannabis in the United States, our debt and loan arrangements are sometimes subject to higher interest rates than are market for other industries, which has an unfavorable impact on our liquidity and capital resources. We also tend to incur higher banking fees and rates than businesses in other industries. Our liquidity may also be negatively impacted if the primary banking and credit institutions meaningfully curtail the use of debit card transactions in the cannabis industry. During the third quarter of 2023, Mastercard sent cease-and-desist letters to various banks and payment processors that facilitated cannabis purchases through unpermitted channels and processes, demanding such banks and processors terminate the activity and transactions. Management does not believe recent developments in the payment processing environment are likely to materially impact our liquidity; however, if we experience a transition back to all-cash transactions as a result of increased payment restrictions and limitations, our liquidity could be negatively impacted due to decreased sales and/or increased cost of compliance. While participation in the cannabis industry tends to negatively impact certain aspects of capital resources more than other industries, this could change in the future with changes to federal law. If the federal government enacts laws permitting the banking and financial industries to engage with the cannabis industry, such as passage of the SAFE Banking Act, which was introduced in the U.S. Senate in 2023 as a standalone measure that is currently awaiting review in the U.S. Senate banking committee, the Company anticipates that this could have a positive impact on the Company's liquidity because it will open up financing and refinancing opportunities not otherwise widely available to cannabis companies at this time due to the current regulatory landscape.

One of our strategic goals is to grow our business through acquisitions, which also tends to negatively impact liquidity during periods when we consummate an identified acquisition. We expect to continue executing this strategy in future periods, meeting such capital requirements in connection therewith from both internal capital and external financing, which will decrease liquidity. Additionally, the cash requirements to service our debt obligations increase with the passage of time due to interest accrual, which increases constraints on our capital resources and tends to reduce liquidity in the amount of such accruals. Management currently anticipates meeting these cash requirements from operating revenue and cash on hand.

The wholesale cannabis market has experienced downward pricing pressure from over-supply of certain cannabis products in the market, which has affected retail margins in certain periods and will likely impact the relationship between cost and revenue if and/or when supply is constrained. However, we maintain the ability to shift between external sales and internal use or transfer of our wholesale products due to vertical integration based on market conditions, which may mitigate some of the negative impacts of wholesale market downturns. Wholesale pricing can affect margins positively or negatively depending on market conditions, but profit as a percentage of revenue tends to have an inverse relationship with market pricing conditions. Wholesale pricing increases could reduce retail margins and also generate positive profitability in the wholesale segment, and vice versa. The Company anticipates that the wholesale market will likely remain depressed relative to previous periods, which can negatively impact the Company's overall liquidity.

We have also seen a negative relationship between license applications and liquidity in the markets where we operate, and this may negatively impact our liquidity and financial performance in upcoming periods. Since adult-use cannabis

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sales became legal in New Mexico in April 2022, the state has seen a 153% increase in licenses granted to cannabis operators. This increase in state-wide license count represents a substantial increase in competitors in that market, which has diluted the Company's overall market share in New Mexico. As more licenses are issued in states where we operate, our liquidity is likely to be negatively impacted due to increased competition.

Increasing inflation may also negatively impact our liquidity, as our cost of goods and services may increase without corresponding increases to revenue. Inflation increases could also impact our incremental borrowing rate and ability to obtain external financing on similar terms as previous financing arrangements. Increasing inflation and general economic downturn in the United States could also negatively impact revenue to the extent such factors affect consumer behavior. Additional factors or trends that have impacted or could potentially impact liquidity in future periods include general economic conditions such as market saturation, inflation, labor shortages and employee turnover, consumer behavior, and general economic downturn.

Cash Flows

Net cash provided by (used in) operating, investing and financing activities for the periods ended June 30, 2023 and 2022 were as follows:

	For the Periods Ended June 30,	
	2023	2022
Net cash provided by (used in) operating activities	\$ 1,803,570	\$ (9,863,589)
Net cash provided by (used in) investing activities	(20,527,840)	(63,954,864)
Net cash provided by (used in) financing activities	(352,884)	1,280,660

Operating Activities

The change in cash related to operating activities for the period ended June 30, 2023 was predominantly driven by increased depreciation and amortization from the Company's increased asset base, the change in revaluation of the derivative liability associated with the Investor Notes, increased stock compensation expenses due to employee growth and retention efforts, and changes to the Company's operating assets and liabilities.

Investing Activities

The Company's use of cash from investing activities is driven by acquisition of businesses, cannabis licenses, and property, plant, and equipment for existing entities such as store remodels. The decrease in cash used in investing activities is largely attributable to less cash paid for acquisitions than paid in connection with acquisitions in previous periods.

Financing Activities

Historically, our cash provided by financing activities has mainly consisted of proceeds from our Loan Agreement with Altmore, the Investor Notes and the issuance of shares of Common Stock. The change in cash flow from financing activities is primarily related to payment of cash holdbacks pursuant to acquisition agreements that became due and payable during the second quarter of 2023. In accordance with ASC 230 *Statement of Cash Flows*, certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on the Company's net earnings and financial position.

Description of Indebtedness

Loan Agreement

On February 26, 2021, the Company entered into the Loan Agreement with Altmore. Upon execution of the Loan Agreement, the Company received \$10,000,000 of loan proceeds. In connection with the Company's acquisition of Southern Colorado Growers ("SCG"), the Company received an additional \$5,000,000 of loan proceeds under the Loan

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Agreement. The term loan incurs 15% interest per annum, payable quarterly on March 1, June 1, September 1, and December 1 of each year. The Company will be required to make principal payments beginning on June 1, 2023 in the amount of \$750,000, payable quarterly with the remainder of the principal due upon maturity on February 26, 2025. The Company's obligations under the Loan Agreement are secured by a first priority security interest in the assets of PBS Holdco LLC ("PBS"), a wholly owned subsidiary of the Company and the Company's Colorado manufacturing operation, and the 36 acres of land in Huerfano County, Colorado owned by the Company and designed for indoor and outdoor cultivation (the "Altmore Collateral").

Under the terms of the loan, the Company must comply with certain restrictions and covenants. These include customary events of default and various financial covenants including, maintaining (i) a consolidated fixed charge coverage ratio of at least 1.3 at the end of each fiscal quarter beginning in the first quarter of 2022, and (ii) a minimum of \$3,000,000 in a deposit account in which the lender has a security interest. As of March 31, 2023, the Company was in compliance with the requirements described above.

Seller Notes

As part of the Star Buds Acquisitions, the Company entered into a deferred payment arrangement with the sellers in an aggregate amount of \$44,250,000, also referred to in this report as "seller note(s)". The seller notes incur 12% interest per annum, payable on the first of every month through November 2025. Principal payments are due in accordance with the following schedule: \$13,901,759 on December 17, 2025, \$3,474,519 on February 3, 2026, and \$26,873,722 on March 2, 2026. The seller notes are secured by a first priority security interest in substantially all of the assets owned by SBUD LLC, a wholly-owned subsidiary of the Company that acquired the Star Buds assets (the "Star Buds Collateral").

Investor Notes

On December 3, 2021, the Company and the Subsidiary Guarantors entered into the Note Purchase Agreement with 31 accredited investors pursuant to which the Company agreed to issue and sell to the investors 13% senior secured convertible notes due December 7, 2026 in an aggregate principal amount of \$95,000,000 for an aggregate purchase price of \$93,100,000 (reflecting an original issue discount of \$1,900,000, or 2%) in the private placement. On December 7, 2021, the Company consummated the private placement and issued and sold the Investor Notes. The Company received net proceeds of approximately \$92,000,000 at the closing, after deducting a commission to the placement agent and estimated offering expenses associated with the private placement payable by the Company.

The Investor Notes were issued pursuant to an Indenture, dated December 7, 2021, among the Company, the Subsidiary Guarantors, Ankura Trust Company, LLC as trustee and Chicago Atlantic Admin, LLC as collateral agent for the Investor Note holders. The Investor Notes will mature five years after issuance unless earlier repurchased, redeemed, or converted. The Investor Notes bear interest at 13% per year paid quarterly commencing March 31, 2022 in cash for an amount equal to the amount payable on such date as if the Investor Notes were subject to an annual interest rate of 9%, with the remainder of the accrued interest payable as an increase to the principal amount of the Investor Notes. The proceeds from the Investor Notes are required to be used to fund previously identified acquisitions and other growth initiatives. The principal is due December 7, 2026. The Company's obligations under the Indenture and the Investor Notes are secured by (i) a junior security interest in the Altmore Collateral and the Star Buds Collateral, and (ii) a first priority security interest in all assets owned by the Company and the Subsidiary Guarantors on or after December 7, 2021.

Under the Indenture, the Company must comply with certain restrictions and covenants. These include customary events of default and various financial covenants, including maintaining (i) a consolidated fixed charge coverage ratio of no less than 1.30 to 1.00 at the end of each fiscal quarter, and (ii) a minimum of \$10,000,000 (in aggregate) in deposit accounts in which the Indenture Collateral Agent has a security interest. As of June 30, 2023, the Company was in compliance with the requirements described above.

The Indenture includes customary affirmative and negative covenants, including limitations on liens, additional indebtedness, repurchases and redemptions of any equity interest in the Company, certain investments, and dividends and other restricted payments, and customary events of default. See Note 11, "Debt," to the consolidated financial

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statements for additional details on such restrictions included in the Indenture. These restrictions have not impacted the Company's ability to meet its cash obligations, although such restrictions and limitations may make additional external financing more difficult to obtain and/or subject to less favorable terms.

Nuevo Note

As part of the acquisition under the Nuevo Purchase Agreement, Nuevo Holding, LLC, a wholly-owned subsidiary of the Company, issued the Nuevo Note to RGA requiring the Company to make payments on an aggregate amount of \$17,000,000. The deferred Nuevo Note incurs 5% interest per year, payable on the first of each month. The principal is due February 7, 2025. The Nuevo Note is unsecured.

Everest Note

In connection with the Everest Purchase Agreement, Everest Purchaser issued the Everest Note to Everest Seller, requiring the Company to make payments on an aggregate amount of \$17,500,000. The Everest Note incurs 5% interest per year, payable quarterly starting June 30, 2023. Two initial principal and interest payments of \$1,250,000 are due on August 30, 2023 and November 28, 2023. The Company is required to make installment payments of principal and interest starting June 30, 2025, and the total outstanding principal will be due on May 31, 2027. The Everest Note is unsecured.

Contractual Cash Obligations and Other Commitments and Contingencies

Material contractual obligations arising in the normal course of business primarily consist of debt and interest related payments, lease obligations, and purchase price obligations for acquisitions. Management believes that cash flows from operations will be sufficient to satisfy our capital expenditures, debt services, working capital needs, and other contractual obligations for the next twelve months. We may need to obtain additional external financing to meet our material long-term obligations, and management believes the Company will need additional financing to continue execution of its growth strategy in future periods.

The following table quantifies the Company's future contractual obligation as of June 30, 2023:

	<u>Total</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>Thereafter</u>
Notes Payable (a)	\$ 194,110,670	\$ 5,500,000	\$ 1,500,000	\$ 27,624,655	\$ 146,583,106	\$ 12,902,909	\$ 12,902,909
Interest Due on Notes Payable (b)	51,975,329	8,647,105	17,370,021	15,565,484	10,392,719	—	—
Right of Use Assets (c)	39,361,669	3,593,197	6,336,199	5,435,299	5,070,471	3,902,717	15,023,786
Deferred Payment for Acquisitions (d)	4,000,000	750,000	666,668	666,668	1,916,664	—	—
Total	\$ 289,447,668	\$ 18,490,302	\$ 25,872,888	\$ 49,292,106	\$ 163,962,960	\$ 16,805,626	\$ 27,926,695

- (a) Represents principal amounts owed pursuant to the Loan Agreement, the Investor Notes, the Nuevo Note, the seller notes, and the Everest Note, excluding \$36,904,857 of unamortized debt discount and \$5,760,669 of unamortized debt issuance costs. See Note 11 "Debt" to our consolidated financial statements.
- (b) Represents cash interest accruals owed pursuant to the Loan Agreement, the Investor Notes, the Nuevo Note, the seller notes, and the Everest Note. The Investor Notes are convertible into Common Stock freely at the option of the holder and subject to certain restrictions at the option of the Company such that conversion events could impact the interest and accrual obligations related to the Investor Notes in future periods. See Note 11 "Debt" to our consolidated financial statements.
- (c) Reflects our contractual obligations to make future payments under all of the Company's leases in effect as of June 30, 2023. See Note 12 "Leases" to our consolidated financial statements.
- (d) Represents the Akimbo Deferred Purchase Price obligation. See Note 7 "Business Combinations" to our consolidated financial statements.

Critical Accounting Estimates and Recent Accounting Pronouncements

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make

estimates and judgments that affect the amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes that of its significant accounting policies (see Note 2 to Financial Statements), the ones that may involve a higher degree of uncertainty, judgment and complexity are revenue recognition, stock based compensation, derivative instruments, income taxes, goodwill and commitments and contingencies are the most important to the portrayal of our financial condition and results of operations and that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

Revenue Recognition and Related Allowances

We have three main revenue streams: (i) retail sales, (ii) wholesale sales, and (iii) other revenues from revenues from marketing and promotional activities and other miscellaneous sources not otherwise directly related to our retail and wholesale operations. During 2022, we ceased providing licensing and consulting services, strategically discontinued that portion of our business operations, and are no longer providing these services.

The Company's retail and wholesale sales are recorded at the time that control of the products is transferred to customers. In evaluating the timing of the transfer of control of products to customers, we consider several indicators, including significant risks and rewards of products, our right to payment, and the legal title of the products. Based on the assessment of control indicators, our sales are generally recognized when products are delivered to customers.

The Company's other revenue, typically from marketing and promotional services, is recognized when our obligations to our client are fulfilled, which is determined when milestones in the contract are achieved.

Our revenue recognition policy is significant because the amount and timing of revenue is a key component of our results of operations. Certain criteria are required to be met in order to recognize revenue. If these criteria are not met, then the associated revenue is deferred until the criteria are met. A contract liability is recorded when consideration is received in advance of the delivery of goods or services. We identify revenue contracts upon acceptance from the customer when such contract represents a single performance obligation to sell our products.

Stock Based Compensation

We account for share-based payments pursuant to Accounting Standards Codification ("ASC") Topic 718, *Stock Compensation* and, accordingly, we record compensation expense for share-based awards based upon an assessment of the grant date fair value for stock and restricted stock awards using the Black-Scholes option pricing model.

Our stock compensation expense for stock options is recognized over the vesting period of the award or expensed immediately under ASC 718 when stock or options are awarded for previous or current service without further recourse.

Income Taxes

ASC 740, *Income Taxes* requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method of ASC 740, the Company's deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Our deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Goodwill and Intangible Assets

Goodwill represents the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. The goodwill arising from our acquisitions is attributable to the value of the

potential expanded market opportunity with new customers. Intangible assets have either an identifiable or indefinite useful life. Intangible assets with identifiable useful lives are amortized on a straight-line basis over their economic or legal life, whichever is shorter. Our amortizable intangible assets consist of licensing agreements, product licenses and registrations, and intellectual property or trade secrets. Their estimated useful lives range from 3 to 15 years.

Goodwill and indefinite-lived assets are not amortized but are subject to annual impairment testing unless circumstances dictate more frequent assessments. We perform an annual impairment assessment for goodwill during the fourth quarter of each year and more frequently whenever events or changes in circumstances indicate that the fair value of the asset may be less than the carrying amount. Goodwill impairment testing is a two-step process performed at the reporting unit level. Step one compares the fair value of the reporting unit to its carrying amount. The fair value of the reporting unit is determined by considering both the income approach and market approaches. The fair values calculated under the income approach and market approaches are weighted based on circumstances surrounding the reporting unit. Under the income approach, we determine fair value based on estimated future cash flows of the reporting unit, which are discounted to the present value using discount factors that consider the timing and risk of cash flows. For the discount rate, we rely on the capital asset pricing model approach, which includes an assessment of the risk-free interest rate, the rate of return from publicly traded stocks, our risk relative to the overall market, our size and industry and other risks specific to us. Other significant assumptions used in the income approach include the terminal value, growth rates, future capital expenditures and changes in future working capital requirements. The market approaches use key multiples from guideline businesses that are comparable and are traded on a public market. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount exceeds its fair value, then the second step must be taken to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit as calculated in step one. In this step, the fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities in a hypothetical purchase price allocation as if the reporting unit had been acquired on that date. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess.

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates, strategic plans, and future market conditions, among others. There can be no assurance that our estimates and assumptions made for purposes of the goodwill impairment testing will prove to be accurate predictions of the future. Changes in assumptions and estimates could cause us to perform an impairment test prior to scheduled annual impairment tests.

We performed our annual fair value assessment as of December 31, 2022 on our subsidiaries with material goodwill on our respective balance sheets and recognized a goodwill impairment charge of \$11,719,306, of which \$3,708,226 is included in loss from disposal of assets in the accompanying consolidated statements of comprehensive income as it is related to ceased operations during 2022. No additional factors or circumstances existed as of June 30, 2023, that would indicate impairment.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and

Chief Financial Officer, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

On June 7, 2019, the Company filed a complaint against ACC Industries Inc. and Building Management Company B, L.L.C., in state district court located in Clark County, Nevada, alleging, amongst other causes of action, breach of contract, conversion, and unjust enrichment and seeking general, special and punitive damages. On July 17, 2019, the parties stipulated to stay the case in favor of arbitration. On February 25, 2020 ACC Industries Inc. filed a counterclaim against the Company alleging breach of contract. The Company discovered new facts that lead it to believe that a related entity not previously named as a party to the arbitration, ACC Enterprises, LLC (“ACC”), should be brought in as a party to the arbitration. Based upon the new facts, the Company filed a motion to amend the complaint to add new claims and ACC as a party. On September 1, 2020, the arbitrator granted the Company’s motion and permitted the Company to amend the complaint to add ACC as a party. On September 1, 2020, the Company filed an amended complaint and added intentional misrepresentation, fraudulent inducement, civil conspiracy, aiding and abetting, successor liability and fraudulent concealment claims. The Company began arbitration proceedings on November 2, 2020. The Company completed arbitration in February 2021. On May 14, 2021, the Arbitrator entered an award in favor of the Company in the aggregate amount of \$1,935,273, subject to an offset equal to \$150,000, for a total net award of \$1,785,273. After the arbitration award was entered, a receiver was appointed over ACC and its affiliates due to the death of the only owner who had a valid cannabis establishment registration agent card. An automatic litigation stay was entered upon the appointment of the receiver. During the receivership, ACC’s owners have had internal ownership disputes and ACC has had financial difficulties. The receiver has taken the position that ACC should be liquidated. On April 28, 2022, the receiver received approval from the court to liquidate ACC’s assets. On May 24, 2022, upon the completion of a bidding procedure for certain ACC assets, the court approved the sale of certain ACC assets to the only and prevailing bidder. The sale is now completed. On July 26, 2022, the court approved a creditors’ claim process. The Company complied with the claim process and its claim was approved by the receiver. The Company believes that it will, or the receiver will, file a motion to begin winding up the receivership and request that the receiver make a preliminary distribution of the proceeds obtained from the asset sale to approved creditors. The Company believes it is the largest creditor and that the asset sale proceeds will be distributed pro rata to creditors with approved claims.

Item 1A. Risk Factors

There have been no material changes in the risk factors applicable to us from those identified in “Item 1A. Risk Factors” included in our Annual Report on Form 10-K for the period ended December 31, 2022 filed with the Securities and Exchange Commission on March 29, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company is subject to restrictions on the payment of dividends and other working capital requirements in its loan and debt agreements. See Note 11 to the Financial Statements included in Part I to this Quarterly Report on Form 10-Q for additional information on the Company’s indebtedness and related restrictions therein.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None. Without limiting the generality of the foregoing, during the three months ended June 30, 2023, no director or officer of the Company adopted or terminated any “Rule 10b5-1 trading arrangement,” or any “non-Rule 10b-5 trading arrangement,” as such terms are defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

2.1 +	Asset Purchase Agreement, dated April 13, 2023, by and among Medicine Man Technologies, Inc., Double Brow, LLC, Standing Akimbo LLC, Spencer Kirson, and John Murphy (Incorporated by reference to Exhibit 10.1 to Medicine Man Technologies, Inc.’s Current Report on Form 8-K filed April 21, 2023 (Commission File No. 000-55450))
2.2 ++	Asset Purchase Agreement, dated April 21, 2023, by and among Medicine Man Technologies, Inc., Evergreen Holdco, LLC, Sucellus, LLC, Brook Laskey, as Representative, and the Equityholders named therein (Incorporated by reference to Exhibit 2.1 to Medicine Man Technologies, Inc.’s Current Report on Form 8-K filed April 26, 2023 (Commission File No. 000-55450))
2.3	Amendment to Asset Purchase Agreement, dated June 1, 2023, by and among Medicine Man Technologies, Inc., Evergreen Holdco, LLC, Sucellus, LLC, Brook Laskey, as Representative, and the Equityholders named therein (Incorporated by reference to Exhibit 2.2 to Medicine Man Technologies, Inc.’s Current Report on Form 8-K filed June 7, 2023 (Commission File No. 000-55450))
2.4	Call Option Agreement, dated June 1, 2023, by and between Evergreen Holdco, LLC and Sucellus, LLC (Incorporated by reference to Exhibit 2.3 to Medicine Man Technologies, Inc.’s Current Report on Form 8-K filed June 7, 2023 (Commission File No. 000-55450))
2.5 +	Asset Purchase Agreement, dated January 25, 2023, by and among Medicine Man Technologies, Inc., Smoke Holdco, LLC, Cannabis Care Wellness Centers, LLC, Green Medicals Wellness Center #5, LLC, Thomas Wilczynski, Jeremy Lewchuk, T&B Holdings, LLC, and Thomas Wilczynski as Representative (Incorporated by reference to Exhibit 2.3 to Medicine Man Technologies, Inc.’s Current Report on Form 8-K filed April 26, 2023 (Commission File No. 000-55450))
4.1	Promissory Note, dated June 1, 2023, by and between Evergreen Holdco, LLC and Sucellus, LLC (Incorporated by reference to Exhibit 4.1 to Medicine Man Technologies, Inc.’s Current Report on Form 8-K filed June 7, 2023 (Commission File No. 000-55450))
10.1 ^	Agreement, dated May 27, 2023, by and between Medicine Man Technologies, Inc. and Justin Dye (Incorporated by reference to Exhibit 10.1 to Medicine Man Technologies, Inc.’s Current Report on Form 8-K filed May 31, 2023 (Commission File No. 000-55450))
10.2 ^	Amended and Restated Employment Agreement, dated May 24, 2023, by and between Medicine Man Technologies, Inc. and Nirup Krishnamurthy (Incorporated by reference to Exhibit 10.2 to Medicine Man Technologies, Inc.’s Current Report on Form 8-K filed May 31, 2023 (Commission File No. 000-55450))
10.3 ^, **	Description of Medicine Man Technologies, Inc. 2023 Long-Term Incentive Plan
10.4 ^, **	Form of Restricted Stock Option and Performance Share Unit Award Agreement
31.1 *	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2 *	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32 *	Chief Executive Officer and Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101)

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- + Certain exhibits and schedules to the agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company hereby undertakes to supplementally furnish copies of any omitted schedules to the Securities and Exchange Commission upon request.
- ++ Certain information has been redacted pursuant to Item 601(a)(6) of Regulation S-K. The Company hereby undertakes to supplementally furnish any redacted information to the SEC upon request.
- * Furnished herewith.
- ** Filed herewith.
- ^ Indicates management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 10, 2023

MEDICINE MAN TECHNOLOGIES, INC.

By: /s/ Nirup Krishnamurthy
Nirup Krishnamurthy, Chief Executive Officer
(Authorized Officer)

By: /s/ Forrest Hoffmaster
Forrest Hoffmaster, Chief Financial Officer
(Principal Financial Officer and Chief Accounting Officer)

Medicine Man Technologies, Inc.
2023 Long-Term Incentive Plan

The board of directors (the “Board”) of Medicine Man Technologies, Inc. (the “Company”) adopted and approved the Medicine Man Technologies, Inc. 2023 Long-Term Incentive Plan (the “LTIP”) effective as of May 3, 2023. The material terms of the LTIP are summarized below.

Eligibility. Participation in the LTIP is made available to officers and employees of the Company that are serving in a Senior Director-level role and above that are actively employed on the date the LTIP Awards (as defined herein) are granted (the “Recipients”). Recipients will be entitled to receive up to 20%-150% of his or her base salary in LTIP Awards depending on the Recipient’s role, subject to the conditions and limitations in the applicable award agreement.

Awards. The Company granted aggregate awards under the LTIP totaling \$1,644,000 based on the closing stock price of the Company’s common stock (“Common Stock”) on May 3, 2023. The awards granted under the LTIP consist of incentive stock option awards (“ISO Awards”) and performance stock unit awards (“PSU Awards” and together with the ISO Awards, the “LTIP Awards”). The Recipients received 50% of the LTIP Awards in ISO Awards and 50% of the LTIP Awards in PSU Awards. The ISO Awards vest in four equal installments starting on the first anniversary of the grant date of the ISO Award. The PSU Awards vest in four equal installments and subject to satisfaction of certain performance criteria metrics.

Performance Criteria. The performance metrics underlying the PSU Awards are set by the Board at or near the beginning of each year. Both Company and individual performance are factored into the PSU Awards. The performance conditions for the PSU Awards for fiscal year ended December 31, 2023 are assumed to have been met for the first vesting installment of the PSU Awards, and Recipients still actively employed on May 3, 2024 will receive the first installment of Common Stock underlying the vested PSU Awards on or around such date.

Common Stock Subject to LTIP. The Common Stock issuable pursuant to the LTIP Awards will be issued pursuant to the Company’s Registration Statement on Form S-8 under the Medicine Man Technologies, Inc. 2017 Equity Incentive Plan.

**Medicine Man Technologies, Inc.
2017 Equity Incentive Plan**

Stock Option and Performance Share Unit Award Agreement

This Stock Option and Performance Share Unit Award Agreement (this “**Agreement**”) is made and entered into as of [DATE], by and between Medicine Man Technologies, Inc., dba Schwazze, a Nevada corporation (the “**Company**”), and [EMPLOYEE NAME] (the “**Participant**”).

Stock Option	Performance Share Units
Grant Date: [INSERT]	Grant Date: [INSERT]
Exercise Price per Share: [INSERT]	Number of Performance Share Units: [INSERT]
Number of Option Shares: [INSERT]	
Expiration Date: [INSERT]	

1. Grant of Option.

1.1 Grant of Option. The Company hereby grants to the Participant an option (the “**Option**”) to purchase the total number of shares of Common Stock of the Company equal to the number of Option Shares set forth above, at the Exercise Price set forth above. The Option is being granted pursuant to the Medicine Man Technologies, Inc. 2017 Equity Incentive Plan (the “**Plan**”).

1.2 Consideration; Subject to Plan. The grant of the Option is made in consideration of the services to be rendered by the Participant to the Company. The Option and this Agreement are subject to terms and conditions of the Plan as approved by the Company’s shareholders. The terms and provisions of the Plan as it may be amended from time to time are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained in this Agreement and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail. Capitalized terms used but not defined herein will have the meaning ascribed to them in the Plan.

2. Grant of Performance Share Units.

2.1 Grant of Performance Share Units. The Company hereby grants to the Participant, an award of Performance Share Units (the “**RSUs**,” and together with the Option, the “**Award**”) consisting of the right to receive a number of shares of Common Stock (or the cash equivalent, as determined in accordance with the terms of the Plan) set forth above, with settlement in accordance with the terms and conditions of this Agreement and the Plan. The PSUs are being granted pursuant to the Plan.

2.2 Consideration; Subject to Plan. The grant of the PSUs is made in consideration of the services to be rendered by the Participant to the Company. The PSUs and this

Agreement are subject to terms and conditions of the Plan as approved by the Company's shareholders. The terms and provisions of the Plan as it may be amended from time to time are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained in this Agreement and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail. Capitalized terms used but not defined herein will have the meaning ascribed to them in the Plan.

3. Vesting; Exercise Period for Option.

3.1 Vesting Schedule. The Option will become vested and exercisable pursuant to the vesting schedule set forth in Exhibit A until the Option is 100% vested, unless sooner terminated in accordance with Section 4 of this Agreement. The PSUs will become vested pursuant to the vesting schedule set forth in Exhibit A until the PSUs are 100% vested, unless sooner terminated in accordance with Section 4 of this Agreement.

3.2 Expiration of Option. The Option will expire on the Expiration Date set forth above, or earlier as provided in this Agreement or the Plan. In no event will the Option be exercisable after the Expiration Date.

4. Termination of Continuous Service.

4.1 Termination for Reasons Other Than Cause, Death, Disability.

(a) Option. If the Participant's Continuous Service is terminated for any reason other than Cause, death or Disability, the Participant may exercise the vested portion of the Option, but only within such period of time ending on the earlier of (a) the date 3 months following the termination of the Participant's Continuous Service or (b) the Expiration Date. The unvested portion of the Option shall immediately terminate and cease to be exercisable.

(b) PSUs. If the Participant's Continuous Service is terminated for any reason other than Cause, death or Disability, any then-unvested PSUs will immediately terminate and be forfeited in their entirety as of the termination date.

4.2 Termination for Cause.

(a) If the Participant's Continuous Service is terminated for Cause, both the vested and unvested portions of the Option will immediately terminate and cease to be exercisable. If the Participant's Continuous Service is terminated for Cause, all unvested PSUs, the number of shares of Common Stock underlying vested PSUs will immediately terminate, be forfeited or be repaid (or any combination thereof) as of the date such termination occurs. In the event the Participant has sold or otherwise transferred any vested shares of Common Stock that are to be forfeited pursuant to this Section 4.2, the Participant shall pay to the Company an amount equal to the Fair Market Value of such shares of Common Stock as of the date of such termination, as determined by the Committee in its good faith discretion.

(b) For purposes of this Section 4.2, “**Cause**” means, as determined by the Committee in the Committee’s sole discretion, the commission of any act of fraud, embezzlement, dishonesty, or breach of fiduciary duty by, or at the request of, the Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Company (or any Affiliate), or any other intentional misconduct by such person adversely affecting the business or affairs or reputation of the Company (or any Affiliate) in a material manner, or the Participant’s discriminatory or harassing behavior, whether or not unlawful under federal, state or local law, or the Participant’s conviction of a felony; provided, however, that if the term or concept has been defined in an employment or similar type of agreement between the Company and the Participant, then “Cause” shall have the definition set forth in such agreement. The foregoing definition will not in any way preclude or restrict the right of the Company (or any Affiliate) to discharge or dismiss the Participant or other person in the service of the Company (or any Affiliate) for any other acts or omissions, but such other acts or omissions shall not be deemed, for purposes of the Plan, to constitute grounds for termination for Cause.

4.3 Termination due to Disability.

(a) Option. If the Participant’s Continuous Service terminates as a result of the Participant’s Disability, the Participant may exercise the vested portion of the Option, but only within such period of time ending on the earlier of (a) the date 12 months following the Participant’s termination of Continuous Service or (b) the Expiration Date. The unvested portion of the Option shall immediately terminate and cease to be exercisable.

(b) PSUs. If the Participant’s Continuous Service terminates as a result of the Participant’s Disability, any unvested PSUs shall immediately terminate and be forfeited.

(c) For purposes of this Section 4.3, “**Disability**” means: (i) the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months or (ii) the Participant is determined to be totally disabled by the Social Security Administration; provided, however, that if the term or concept has been defined in an employment or similar type of agreement between the Company and the Participant, then “Disability” shall have the definition set forth in such agreement.

4.4 Termination due to Death.

(a) Option. If the Participant’s Continuous Service terminates as a result of the Participant’s death, the vested portion of the Option may be exercised by the Participant’s estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by the person designated to exercise the Option upon the Participant’s death, but only within the time period ending on the earlier of (a) the date 12 months

following the Participant's death or (b) the Expiration Date. The unvested portion of the Option shall immediately terminate and cease to be exercisable.

(b) PSUs. If the Participant's Continuous Service terminates as a result of the Participant's Disability, any unvested PSUs shall immediately terminate and be forfeited.

4.5 Definition of Continuous Service. For purposes of the Plan and this Agreement, "**Continuous Service**" means the absence of any interruption or termination of service as an employee or other service provider of the Company or any Affiliate. Continuous Service will not be considered interrupted or terminated in the case of: (i) sick leave approved by the Company or Affiliate, (ii) military leave, or (iii) any other bona fide leave of absence approved by the Company or Affiliate. Also, Continuous Service as an employee of the Company or an Affiliate will not be considered interrupted or terminated in the case of a transfer between locations of the Company or Affiliate, or a change in status from an employee of the Company or Affiliate to a consultant, independent contractor, or director of the Company or Affiliate, provided that, there is no interruption in Continuous Service between change in status. For the avoidance of doubt, subject to applicable laws, no period of notice, if any, or payment instead of notice that is given or that ought to have been given under applicable law, whether by statute, imposed by a court or otherwise, in respect of a Participant's termination of employment or termination of Continuous Service that follows or is in respect of a period after the Participant's last day of Continuous Service will be considered as extending the Participant's period of employment or period of Continuous Service for the purposes of determining the Participant's entitlement under this Agreement.

5. Manner of Exercise of Option.

5.1 Election to Exercise. To exercise the Option, the Participant (or in the case of exercise after the Participant's death or incapacity (by reason of physical or mental disability, whether or not a Disability or legally adjudicated as such), the Participant's executor, administrator, heir or legatee, as the case may be) must deliver to the Company an executed stock option exercise agreement in such form as is approved by the Board from time to time (the "**Exercise Agreement**"), which shall set forth, inter alia:

- (a) the Participant's election to exercise the Option;
- (b) the number of shares of Common Stock being purchased;
- (c) any restrictions imposed on the shares; and
- (d) any representations, warranties and agreements regarding the Participant's investment intent and access to information as may be required by the Company to comply with applicable securities laws.

If someone other than the Participant exercises the Option, then such person must submit documentation reasonably acceptable to the Company verifying that such person has the legal right to exercise the Option.

5.2 Payment of Exercise Price. To the extent permitted by applicable statutes and regulations, either:

(a) in cash or cash equivalent acceptable to the Company at the time the Option is exercised;

(b) by delivery to the Company of other shares of Common Stock, duly endorsed for transfer to the Company, with a Fair Market Value on the date of delivery equal to the Exercise Price (or portion thereof) due for the number of shares being acquired, or by means of an executed form of attestation whereby the Participant identifies for delivery specific shares that have a Fair Market Value on the date of attestation equal to the Exercise Price (or portion thereof) and receives a number of shares equal to the difference between the number of shares thereby purchased and the number of identified attestation shares (a “**Stock for Stock Exchange**”);

(c) through a “cashless exercise program” established with a broker that has been authorized by the Company;

(d) by reduction in the number of shares otherwise deliverable upon exercise of such Option with a Fair Market Value equal to the aggregate Exercise Price at the time of exercise;

(e) by any combination of the foregoing methods; or

(f) in any other form of legal consideration that may be acceptable to the Board.

5.3 Withholding. If the Company, in its discretion, determines that it is obligated to withhold any tax in connection with the exercise of the Option, the Participant must make arrangements satisfactory to the Company to pay or provide for any applicable federal, state and local withholding obligations of the Company. The Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise of the Option by any of the following means or by a combination of such means:

(a) tendering a cash payment;

(b) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise of the Option; provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or

(c) delivering to the Company previously owned and unencumbered shares of Common Stock.

The Company has the right to withhold taxes from any compensation paid to a Participant.

5.4 Issuance of Shares. Provided that the exercise notice and payment are in form and substance satisfactory to the Company, the Company shall issue the shares of Common Stock registered in the name of the Participant, the Participant's authorized assignee, or the Participant's legal representative, which issuance shall be evidenced by stock certificates representing the shares with the appropriate legends affixed thereto, appropriate entry on the books of the Company or of a duly authorized transfer agent, or other appropriate means as determined by the Company.

6. Dividend Equivalents; Settlement of Vested PSUs.

6.1 Dividend Equivalents. In the event of any issuance of a cash dividend on the shares of Common Stock (a "**Dividend**"), the Participant shall be credited, as of the payment date for such Dividend, with an additional number of PSUs (each, an "**Additional PSU**") equal to the quotient obtained by dividing (x) the product of (i) the number of PSUs granted pursuant to this Agreement and outstanding as of the record date for such Dividend multiplied by (ii) the amount of the Dividend per share, by (y) the Fair Market Value per share on the payment date for such Dividend, such quotient to be rounded to the nearest hundredth. Once credited, each Additional PSU shall be treated as a PSU granted hereunder and shall be subject to all terms and conditions set forth in this Agreement.

6.2 Settlement Date. Subject to the PSUs vesting in accordance with Section 3 and Exhibit A (or Section 9, if applicable), and the other terms and conditions of this Agreement, the PSUs will be settled as soon as practicable after any such PSUs have become vested, but in no event later than March 15th of the year following the year in which such vesting occurs, by delivery to the Participant of payment with respect to such PSUs in the form of shares of Common Stock or cash, as determined by the Committee in its sole discretion.

6.3 Withholding. If the Company, in its discretion, determines that it is obligated to withhold any tax in connection with the settlement of the PSUs, the Participant must make arrangements satisfactory to the Company to pay or provide for any applicable federal, state and local withholding obligations of the Company. The Participant may satisfy any federal, state or local tax withholding obligation relating to the settlement of the PSUs by any of the following means or by a combination of such means:

(a) tendering a cash payment;

(b) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the settlement of the PSUs; provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or

(c) delivering to the Company previously owned and unencumbered shares of Common Stock.

In addition, The Company has the right to withhold taxes from any compensation paid to a Participant.

6.4 Issuance of Shares. To the extent that PSUs are settled in shares of Common Stock, the Company shall issue the shares of Common Stock registered in the name of the Participant, the Participant's authorized assignee, or the Participant's legal representative, which issuance shall be evidenced by stock certificates representing the shares with the appropriate legends affixed thereto, appropriate entry on the books of the Company or of a duly authorized transfer agent, or other appropriate means as determined by the Company.

7. No Rights as Shareholder. The Participant shall not have any rights as a shareholder of the Company with respect to any shares of Common Stock subject to the Option unless and until, in accordance with the Participant's exercise and purchase of some or all of the vested portion of the Option, certificates representing the shares have been issued by the Company to the Participant as the holder of such shares, or the shares have otherwise been recorded on the books of the Company or of a duly authorized transfer agent as owned by such holder. In addition, the Participant shall not be deemed for any purpose to be the record owner of any shares of Common Stock underlying the PSUs pursuant to this Agreement, until, and to the extent, such PSUs are finally settled in shares of Common Stock.

8. Transferability. No portion of the Award is not transferable by the Participant other than to a designated beneficiary upon the Participant's death or by will or the laws of descent and distribution, and the Option is exercisable during the Participant's lifetime only by him or her. No assignment or transfer of the Award, or the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise (except to a designated beneficiary upon death by will or the laws of descent or distribution) will vest in the assignee or transferee any interest or right herein whatsoever, but immediately upon such assignment or transfer the Award will terminate and become of no further effect.

9. Change in Control.

9.1 Acceleration of Vesting. In the event of a Change in Control, notwithstanding any provision of the Plan or this Agreement to the contrary, the Option shall become immediately vested and exercisable with respect to 100% of the shares subject to the Option. To the extent practicable, such acceleration of vesting and exercisability shall occur in a manner and at a time which allows the Participant the ability to participate in the Change in Control with respect to the shares of Common Stock received. In addition, upon a Change in Control, the performance criteria with respect to the Participant's PSUs shall be deemed to have been met at, and the Participant's outstanding PSUs shall vest at, the "target" level (each as set forth in Exhibit A), and shall be settled in accordance with Section 6 of the Agreement.

9.2 Cash-Out. In the event of a Change in Control, the Committee may, in its discretion and upon at least 10 days' advance notice to the Participant, cancel the Option and pay to the Participant the value of the Option based upon the price per share of Common Stock received or to be received by other shareholders of the Company in the event. Notwithstanding the foregoing, if at the time of a Change in Control the Exercise Price of the Option equals or exceeds the price paid for a share of Common Stock in connection with the Change in Control, the Committee may cancel the Option without the payment of consideration therefor.

9.3 Definition of Change in Control. For purposes of the Plan, “**Change in Control**” means: (a) the purchase or other acquisition (other than from the Company) by any person, entity or group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the “Act”) (excluding for this purpose, the Company or its Subsidiaries or any employee benefit plan of the Company or its Subsidiaries), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of 50% or more of either the then-outstanding shares of Common Stock of the Company or the combined voting power of the Company’s then-outstanding voting securities entitled to vote generally in the election of directors; (b) the consummation of (i) a reorganization, merger or consolidation involving the Company that requires the approval of the Company’s stockholders, that results in security holders of the Company immediately before such reorganization, merger or consolidation holding 50% or less of both the Common Stock (or the common equity of the surviving entity, as applicable) and the combined voting power of the voting securities of the Company (or such surviving entity, as applicable) outstanding immediately after such reorganization, merger or consolidation, or (ii) the sale of all or substantially all of the assets of the Company, or (c) approval of the stockholders of the Company of a liquidation or dissolution of the Company; provided, however, solely with respect to the payment of an Award that is subject to Section 409A of the Code and solely to the extent required for any such payment to avoid violating Section 409A of the Code, this definition of Change in Control shall be interpreted and applied to mean a “change in control event” within the meaning of Section 409A of the Code and the U.S. Treasury Regulations and other guidance promulgated thereunder; provided, further, that, notwithstanding the foregoing definition or any other term of the Plan, the term “Change in Control” will not include a reorganization, merger, consolidation, sale of assets or other transaction effected exclusively for the purpose of changing the domicile of the Company.

10. Adjustments. The shares of Common Stock subject to the Option and the PSUs may be adjusted or terminated in any manner as contemplated by Section 9 of the Plan.

11. Tax Liability and Withholding. Notwithstanding any action the Company takes with respect to any or all income tax, social insurance, payroll tax, or other tax-related withholding (“**Tax-Related Items**”), the ultimate liability for all Tax-Related Items is and remains the Participant’s responsibility and the Company (a) makes no representation or undertakings regarding the treatment of any Tax-Related Items in connection with the grant, vesting, or exercise of the Option or the subsequent sale of any shares acquired on exercise, or in connection with the grant, vesting, or settlement of the PSUs; and (b) does not commit to structure the Option or PSUs to reduce or eliminate the Participant’s liability for Tax-Related Items.

12. Leak Out. All shares of Common Stock issued pursuant to this Agreement may be liquidated at a daily rate of no more than 5% of the preceding 5-day average volume of the Company’s Common Stock on any given trading day.

13. Non-Competition and Non-Solicitation.

13.1 Non-Competition and Non-Solicitation Restrictions. In consideration of the Award, the Participant agrees and covenants not to:

(a) contribute his or her knowledge, directly or indirectly, in whole or in part, as an employee, officer, owner, manager, advisor, consultant, agent, partner, director, shareholder, volunteer, intern or in any other similar capacity to an entity engaged in the same or similar business as the Company and its Affiliates, including those engaged in the cannabis industry for a period of 1 year following the Participant's termination of Continuous Service;

(b) directly or indirectly, solicit, hire, recruit, attempt to hire or recruit, or induce the termination of employment of any employee of the Company or its Affiliates for 1 year following the Participant's termination of Continuous Service;

(c) directly or indirectly, solicit, contact (including, but not limited to, e-mail, regular mail, express mail, telephone, fax, and instant message), attempt to contact or meet with the current, former or prospective customers of the Company or any of its Affiliates for purposes of offering or accepting goods or services similar to or competitive with those offered by the Company or any of its Affiliates for a period of 1 year following the Participant's termination of Continuous Service.

13.2 Enforcement of Non-Competition and Non-Solicitation Restrictions. In the event of a breach or threatened breach by the Participant of any of the covenants contained in Section 13.1:

(a) any unvested portion of the Award shall be forfeited effective as of the date of such breach, unless sooner terminated by operation of another term or condition of this Agreement or the Plan; and

(b) the Participant hereby consents and agrees that the Company shall be entitled to seek, in addition to other available remedies, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief.

14. Compliance with Law. The exercise of the Option and the issuance and any transfer of shares of Common Stock pursuant to the Option or the settlement of PSUs in Common Stock of the Company shall be subject to compliance by the Company and the Participant with all applicable requirements of federal and state securities laws, regulatory agencies and any stock exchange on which the Company's shares of Common Stock may be listed. No shares of Common Stock shall be issued pursuant to this Award unless and until any then applicable requirements of state or federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel. The Participant understands that the Company is under no obligation to register the shares of Common Stock with the Securities and Exchange Commission, any state securities commission or any stock exchange to effect such compliance.

15. Notices. Any notice required to be delivered to the Company under this Agreement shall be in writing and addressed to the General Counsel of the Company at the Company's principal corporate offices. Any notice required to be delivered to the Participant under this Agreement shall be in writing and addressed to the Participant at the Participant's address as shown in the records of the Company. Either party may designate another address in writing (or by such other method approved by the Company) from time to time.

16. Governing Law. This Agreement will be construed and interpreted in accordance with the laws of the State of Nevada without regard to conflict of law principles.

17. Interpretation. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements, representations and understandings. Any dispute regarding the interpretation of this Agreement shall be submitted by the Participant or the Company to the Board for review. The resolution of such dispute by the Board shall be final and binding on the Participant and the Company.

18. Successors and Assigns. The Company may assign any of its rights under this Agreement. This Agreement will be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein, this Agreement will be binding upon the Participant and the Participant's beneficiaries, executors, administrators and the person(s) to whom this Agreement may be transferred by will or the laws of descent or distribution.

19. Severability. The invalidity or unenforceability of any provision of the Plan or this Agreement shall not affect the validity or enforceability of any other provision of the Plan or this Agreement, and each provision of the Plan and this Agreement shall be severable and enforceable to the extent permitted by law.

20. Discretionary Nature of Plan. The Plan is discretionary and may be amended, cancelled or terminated by the Company at any time, in its discretion. The grant of the Award in this Agreement does not create any contractual right or other right to receive any Options or other Awards in the future. Future Awards, if any, will be at the sole discretion of the Company. Any amendment, modification, or termination of the Plan shall not constitute a change or impairment of the terms and conditions of the Participant's employment with the Company.

21. Amendment. The Board has the right to amend, alter, suspend, discontinue or cancel the Award, prospectively or retroactively; *provided, that*, no such amendment shall adversely affect the Participant's material rights under this Agreement without the Participant's consent.

22. No Impact on Other Benefits. The value of the Participant's Award is not part of his or her normal or expected compensation for purposes of calculating any severance, retirement, welfare, insurance or similar employee benefit.

23. Not an Employment Contract. This Agreement is not an employment contract and nothing in the Plan or this Agreement shall be construed to limit the discretion of the Company to terminate the Participant's Continuous Service at any time, or for any reason or no reason.

24. Section 409A. This Award is intended to either (i) qualify for an exemption under Section 409A of the U.S. Internal Revenue Code and the final regulations promulgated thereunder (“**Section 409A**”) or (ii) satisfy the requirements of Section 409A. This Agreement shall be interpreted, administered and construed in a manner consistent with that intent. Notwithstanding the forgoing, if the Company determines that any provision of this Agreement or the Plan contravenes Section 409A or could cause the Participant to incur any tax, interest or penalties under Section 409A, the Company may, in its sole discretion and without the Participant’s consent, modify such provision to (x) comply with, or avoid being subject to, Section 409A, or to avoid the incurrence of any taxes, interest and penalties under Section 409A, or (y) maintain, to the maximum extent practicable, the original intent and economic benefit to the Participant of the applicable provision without materially increasing the cost to the Company or contravening the provisions of Section 409A. This Section 24 does not create an obligation of the Company to modify the Plan or this Agreement and does not guarantee that the Award will not be subject to taxes, interest and penalties under Section 409A. If the Participant is a “specified employee” as defined under Section 409A and the Participant’s Award is to be settled on account of the Participant’s separation from service (for reasons other than death) and such Award constitutes “deferred compensation” as defined under Section 409A, then any portion of the Participant’s Award that would otherwise be settled during the six-month period commencing on the Participant’s separation from service shall be settled as soon as practicable following the conclusion of the six-month period (or following the Participant’s death if it occurs during such six-month period).

25. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. Counterpart signature pages to this Agreement transmitted by facsimile transmission, by electronic mail in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

26. Acceptance. The Participant hereby acknowledges receipt of a copy of the Plan and this Agreement. The Participant has read and understands the terms and provisions thereof, and accepts the Award subject to all of the terms and conditions of the Plan and this Agreement. The Participant acknowledges that there may be tax consequences upon exercise of the Option or disposition of the underlying shares and that the Participant should consult a tax advisor prior to such exercise or disposition.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

MEDICINE MAN TECHNOLOGIES, INC.
DBA SCHWAZZE

By: _____
Name:
Title:

Participant
By: _____
Name:

Exhibit A – Vesting Schedule

A. Stock Option

Except as may otherwise be provided herein, subject to the Participant's Continuous Service with the Company and achievement of the applicable performance criteria, the Option granted under this Agreement shall become vested and nonforfeitable in accordance with the following schedule:

[INSERT SCHEDULE INCLUDING APPLICABLE PERFORMANCE CRITERIA]

B. Performance Share Units

Except as may otherwise be provided herein, subject to the Participant's Continuous Service with the Company and achievement of the applicable performance criteria, the PSUs granted under this Agreement shall become vested and nonforfeitable in accordance with the following schedule:

[INSERT SCHEDULE INCLUDING APPLICABLE PERFORMANCE CRITERIA]

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002**

I, Nirup Krishnamurthy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Medicine Man Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 10, 2023

/s/ Nirup Krishnamurthy

Nirup Krishnamurthy, Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002**

I, Forrest Hoffmaster, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Medicine Man Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 10, 2023

/s/ Forrest Hoffmaster

Forrest Hoffmaster, Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report of Medicine Man Technologies, Inc. (the “Company”) on Form 10-Q for the fiscal period ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, the undersigned, in the capacities and on the date indicated below, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 10, 2023

/s/ Nirup Krishnamurthy

Nirup Krishnamurthy, Chief Executive Officer

Dated: August 10, 2023

/s/ Forrest Hoffmaster

Forrest Hoffmaster, Chief Financial Officer
