ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and plan of operations together with our accompanying consolidated financial statements and the related notes appearing elsewhere in this Annual Report on Form 10-K. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” included elsewhere in this Annual Report on Form 10-K. All amounts in this report are in U.S. dollars, unless otherwise noted.

Overview

We are a vertically-integrated, multi-state owner and operator of licensed cannabis cultivation, processing and dispensary facilities, and a developer, producer and distributor of innovative branded cannabis products in the United States. Although we are committed to creating a national retail brand and portfolio of branded cannabis products recognized in the United States, cannabis currently remains illegal under U.S. federal law.

Through our subsidiaries, we own and/or operate, as of December 31, 2024, 40 dispensaries and eight cultivation and/or processing facilities in six U.S. states. Pursuant to our existing licenses, interests and contractual arrangements, and subject to regulatory approval, as of December 31, 2024, we had the capacity to own and/or operate up to an additional five dispensary licenses and/or dispensary facilities in two states, plus an uncapped number of dispensary licenses in Florida, and up to 18 total cultivation, manufacturing and/or processing facilities, and we have the right to manufacture and distribute cannabis products in seven U.S. states, all subject to the necessary regulatory approvals.

Our multi-state operations encompass the full spectrum of medical and adult-use cannabis enterprises, including cultivation, processing, product development, wholesale-distribution and retail. Cannabis products offered by us include flower and trim, products containing cannabis flower and trim (such as packaged flower and pre-rolls), cannabis infused products (such as topical creams and edibles) and products containing cannabis extracts (such as vape cartridges, concentrates, live resins, wax products, oils and tinctures). Under U.S. federal law, cannabis is classified as a Schedule I controlled substance under the U.S. Controlled Substances Act. A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety use under medical supervision and a high potential for abuse. Other than Epidiolex (cannabidiol), a cannabis-derived product, and three synthetic cannabis-related drug products (Marinol (dronabinol), Syndros (dronabinol) and Cesamet (nabilone), to our knowledge, the U.S. Food and Drug Administration has not approved a marketing application for cannabis for the treatment of any disease or condition and has not approved any cannabis or cannabis-derived products.

Financial Restructuring

The significant disruption of global financial markets, and specifically, the decline in the overall public equity cannabis markets due to the COVID-19 pandemic negatively impacted our ability to secure additional capital, which caused liquidity constraints. In early 2020, due to the liquidity constraints, we attempted to negotiate temporary relief of our interest obligations with the lenders (the “Secured Lenders”) of our 13.0% senior secured debentures (the “Secured Notes”) issued by our wholly-owned subsidiary, iAnthus Capital Management, LLC (“ICM”). However, we were unable to reach an agreement and did not make interest payments when due and payable to the Secured Lenders or payments that were due to the holders (the “Unsecured Lenders” and together with the Secured Lenders, the “Lenders”) of our 8.0% convertible unsecured debentures (the “Unsecured Debentures”). As a result, we defaulted on our obligations pursuant to the Secured Notes and Unsecured Debentures.

On July 10, 2020, we entered into a restructuring support agreement (as amended on June 15, 2021, the “Restructuring Support Agreement”) with the Secured Lenders and certain of our Unsecured Lenders (the “Consenting Unsecured Lenders”) to effectuate a recapitalization transaction (the “Recapitalization Transaction”) which was consummated on June 24, 2022 (the "Closing Date").

In connection with the closing of the Recapitalization Transaction, we issued an aggregate of 6,072,579,705 common shares to the Secured Lenders and the Unsecured Lenders. Specifically, we issued the Secured Lender Shares, or 48.625% of our then outstanding common shares, to the Secured Lenders and the Unsecured Lender Shares, or 48.625% of our then outstanding common shares, to the Unsecured Lenders. As of the Closing Date, we had 6,244,297,897 common shares issued and outstanding. As of the Closing Date, the holders of our common shares collectively held 171,718,192 common shares, or 2.75% of our outstanding common shares.

As of the Closing Date, the outstanding principal amount of the Secured Notes (including the Interim Financing secured notes in the aggregate principal amount of approximately $14.7 million originally due on July 13, 2025) together with interest accrued and fees thereon were forgiven in part and exchanged for (A) the Secured Lender Shares, (B) the June Secured Debentures in the aggregate principal amount of $99.7 million and (C) the June Unsecured Debentures in the aggregate principal amount of $5.0 million. In addition, as of the Closing Date, the outstanding principal amount of the Unsecured Debentures together with interest accrued and fees thereon were forgiven in part and exchanged for (A) the Unsecured Lender Shares and (B) the June Unsecured Debentures in the aggregate principal amount of $15.0 million. Furthermore, all existing options and warrants to purchase our common shares, including certain debenture warrants and exchange warrants previously issued to the Secured Lenders, the warrants previously issued in connection with the Unsecured Debentures and all other Affected Equity (as defined in the Plan of Arrangement), were cancelled and extinguished for no consideration.

Registration Rights Agreement

In connection with the consummation of the Recapitalization Transaction, we entered into the RRA, dated June 24, 2022, with ICM and the Holders pursuant to which we shall, upon receipt of a Shelf Request from the Substantial Holders, prepare and file (i) with the applicable Canadian Securities Regulators (as defined in the RRA), a Shelf Prospectus (as defined in the RRA) to facilitate a secondary offering of all of the Registrable Securities or (ii) with the SEC, a S-3 Registration Statement covering the resale of all Registrable Securities. In addition, pursuant to the RRA and subject to certain exceptions, the Substantial Holders may submit a Demand Registration Request that we file a Prospectus (as defined in the RRA) (other than a Shelf Prospectus) or a Registration Statement to facilitate a Distribution (as defined in the RRA) in Canada or the United States of all or any portion of the Registrable Securities (the "Demand Registration") held by the Holders requesting the Demand Registration. Moreover, pursuant to the RRA and subject to certain exceptions, if, at any time, we propose to make a Distribution for our own account, we shall notify the Holders of such Piggyback Registration and shall use reasonable commercial efforts to include in the Piggyback Registration such Registrable Securities requested by the Holders be included in such Piggyback Registration.

Investor Rights Agreement

Furthermore, in connection with the closing of the Recapitalization Transaction, we entered into the IRA, dated June 24, 2022, with ICM and the Investors. Pursuant to the IRA, among other things, the Investors are entitled to designate nominees for election or appointment to our Board as follows:

- one investor (the "First Investor") shall be entitled to designate director nominees as follows:
    1. For so long as the First Investor's Debt Exchange Common Share Percentage (as defined in the IRA) is at least 30.0%, the First Investor shall be entitled to designate up to three individuals as director nominees;
    2. For so long as the First Investor's Debt Exchange Common Share Percentage is less than 30.0% but is at least 15.0%, the First Investor shall be entitled to designate up to two individuals as director nominees; and
    3. For so long as the First Investor's Debt Exchange Common Share Percentage is less than 15.0% but is at least 5.0%, the First Investor shall be entitled to designate up to one individual as a director nominee.
- a second investor ("the Second Investor") shall be entitled to designate up to one individual as a director nominee for so long as such Investor's Debt Exchange Common Share Percentage is at least 5.0%.
- a third Investor ("the Third Investor") shall be entitled to designate up to one individual as a director nominee for so long as such Investor's Debt Exchange Common Share Percentage is at least 5.0%.
- a fourth Investor ("the Fourth Investor") shall be entitled to designate up to one individual as a director nominee for so long as such Investor's Debt Exchange Common Share Percentage is at least 5.0%.

Pursuant to the IRA, the Secured Lenders appointed Scott Cohen, Michelle Mathews-Spradlin and Kenneth Gilbert to serve on our Board. Mr. Cohen and Ms. Mathews-Spradlin's appointments were effective as of the Closing Date and Mr. Gilbert's appointment was effective as of August 11, 2022. The Consenting Unsecured Lenders initially appointed Zachary Arrick, Alexander Shoghi and Marco D'Attanasio to serve on our Board effective as of the Closing Date. On September 15, 2022, Mr. D'Attanasio resigned as a member of our Board and audit committee. On February 21, 2023, Mr. Arrick resigned as a member of our Board, compensation, nominating and corporate governance committees. On April 20, 2023, John Paterson was appointed to our Board. Mr. Paterson was nominated as a replacement director for Mr. D'Attanasio by the Investor that initially nominated Mr. D'Attanasio. On March 9, 2024, Mr. Paterson resigned as a member of our Board, audit committee and nominating and corporate governance committee. As of the date hereof, the Consenting Unsecured Lenders have not filled the vacancies on our Board created by Mr. Arrick's or Mr. Paterson's resignations. The directors appointed by the Secured Lenders and Consenting Unsecured Lenders will serve as our directors until our next annual general meeting of shareholders or until their successors are duly elected or appointed.

Pursuant to the IRA, we are required to hire a chief executive officer (and any successor thereto) who has been unanimously approved by the Investors. Upon the chief executive officer taking office (other than an interim chief executive officer), we are obligated to arrange for the chief executive officer to be appointed to our Board. Accordingly, we appointed Richard Proud as a member of our Board upon his appointment as Chief Executive Officer, which had been unanimously approved by the Investors.

Acquisitions

Acquisition of Cheetah

On December 30, 2024, we entered into an Asset Purchase Agreement (the "Cheetah Purchase Agreement") with Cheetah Enterprises, Inc. (the "Cheetah Seller"), pursuant to which, we acquired substantially all of the assets of the Cheetah Seller that relate to and are used in connection with the Cheetah Seller's cannabis wholesale business, including the manufacture, marketing, and sale of cannabis distillate vaporize products in the states of Illinois and Pennsylvania under the "Cheetah" brand (the "Brand"), but excluding certain excluded assets (collectively, the "Cheetah Purchased Assets") together with certain assumed liabilities related to the Cheetah Purchased Assets. The purchase price (the "Purchase Price") for the Cheetah Purchased Assets is approximately $3.5 million, and includes (i) common shares at an aggregate deemed value of approximately $1.5 million, which we recorded at a fair value of $1.2 million), to be issued in three (3) tranches; (ii) cash consideration of approximately $2.0 million payable in four installments, upon the completion of certain performance benchmarks (if the Brand does not meet the performance benchmark by the payment date, such payment date will be delayed until the later of (x) thirty (30) days or (y) until such time the Brand achieves the applicable performance benchmark; provided, payment of the full cash consideration shall not be delayed more than twenty-four (24) months after closing); and (iii) additional consideration based on EBITDA generated by the Brand over the next three years which is payable annually in cash, with the final payment due on or before April 1, 2028.

Dispositions

Certain Massachusetts Assets

On February 9, 2024, our wholly-owned subsidiary, Mayflower Medicinals, Inc. ("Mayflower"), entered into an Asset Purchase Agreement (the "MA Purchase Agreement") with an unaffiliated third-party buyer (the "MA Buyer"), pursuant to which, Mayflower agreed to sell certain of its assets associated with its Holliston, Massachusetts cultivation and product manufacturing facility (the "Purchased Assets") for $3.0 million (the "Purchase Price"). The transaction closed on September 27, 2024 (the "MA Closing Date"). On the MA Closing Date, $0.5 million was paid in cash (the "Cash Closing Payment"), while the remaining $2.5 million of the Purchase Price will be paid in installments pursuant to two promissory notes as follows: $0.5 million to be paid in equal monthly installments over eight months with interest accruing at 7% per annum, and $2 million to be paid in equal monthly installments over 36 months with interest accruing at 7% per annum. As security for payments under the notes, Mayflower executed a security agreement, granting it a first priority lien on the purchased assets. The proceeds from the Cash Closing Payment were used to satisfy certain federal tax obligations. We recognized a gain of $2.6 million, which was the difference between the aggregate fair value of the consideration and the carrying value of the net assets disposed as of the MA Closing Date, which is presented in "recoveries, write-downs and other charges, net" on the consolidated statements of operations for the year ended December 31, 2024.

Nevada Assets

On February 23, 2024, our wholly-owned subsidiary, GreenMart of Nevada NLV, LLC ("GMNV") entered into an Asset Purchase Agreement (the "NV Purchase Agreement") with an unaffiliated third-party buyer (the "NV Buyer"), pursuant to which, GMNV agreed to sell substantially all of the assets of GMNV to the NV Buyer. GMNV currently operates a co-located medical and adult-use cultivation and production facility in North Las Vegas, Nevada and an adult-use dispensary in Las Vegas, Nevada and holds two conditional adult-use dispensary licenses to be located in Henderson and Reno, Nevada (the "Business"). The aggregate proceeds to be received from the sale are $6.5 million. The closing of the NV Purchase Agreement is subject to, among other customary conditions, receipt of approval of the Nevada Cannabis Compliance Board (the "NV CCB"). On February 23, 2024, GMNV also entered into a Management Agreement (the "NV Management Agreement"), pursuant to which, the NV Buyer's affiliated entity (the "Manager"), will assume full operational and managerial control of the Business, which was approved by the NV CCB and became effective June 24, 2024 (the "NV Management Agreement Effective Date"). Of the total Purchase Price, $3.5 million is paid in cash at the closing of the NV Purchase Agreement (the "Closing") and the remaining balance of the Purchase Price is paid on a quarterly basis, beginning three months after the Closing, over 36 months with interest accruing at 8% per annum. On March 20, 2025, the NV CCB approved the transaction contemplated by the NV Purchase Agreement.

As of the NV Management Agreement Effective Date, all operational control of GMNV was transferred to the Manager and we determined that we no longer had a controlling financial interest as of the NV Management Agreement Effective Date. We recognized a gain on deconsolidation of $2.1 million, which was difference between the aggregate fair value of the consideration and the carrying value of the net liabilities disposed from deconsolidation on the NV Management Agreement Effective Date, which is presented in

"interest and other income" on the consolidated statements of operations for the year ended December 31, 2024. As the consideration to be received is contingent on the receipt of the approval from the NV CCB, no consideration has been recognized to date. Once the license transfer has been approved and the consideration has been received from the Buyer, we will recognize the associated gains at such time.

Recent Developments

Issuance of Common Shares

On January 9, 2025, we issued 41,666,666 common shares to the Cheetah Seller with respect to the acquisition of Cheetah.

On January 14, 2025, we issued 25,632,509 common shares for vested RSUs to certain employees and directors. We withheld 1,028,774 common shares to satisfy employees' tax obligations of less than $0.1 million.

Sale of Certain Arizona Assets

On February 6, 2025, we entered into definitive agreements (the "AZ Purchase Agreements") with an unaffiliated third-party buyer (the "AZ Buyer"), pursuant to which we agreed to sell three dispensaries and two processing/cultivation facilities in Arizona for aggregate consideration of approximately $36.5 million (the "AZ Transaction"). The AZ Transaction includes two dispensaries, a processing facility and a cultivation/processing facility located in Mesa, Arizona as well as one dispensary located in Phoenix, Arizona (collectively, the "Facilities"). Following the closing of the AZ Transaction, we will continue to operate one dispensary in Mesa, Arizona.

Pursuant to the AZ Purchase Agreements, we agreed to sell and the AZ Buyer agreed to acquire, substantially all of the assets related to or used in connection with the Facilities, including, but not limited to, all cannabis licenses associated with such businesses and related real property (collectively, the "AZ Purchased Assets"), together with certain assumed liabilities related to the AZ Purchased Assets. The closing of the Transaction is subject to customary conditions precedent, including the receipt of applicable consents and regulatory approvals.

The purchase price for the AZ Purchased Assets is approximately $36.5 million and will consist of approximately $20 million of cash payable at closing, subject to certain adjustments, and a secured promissory note to be issued by the AZ Buyer in the principal amount of $16.5 million (the "AZ Note"). The AZ Note will bear interest at a rate of six percent per annum compounded annually, with a term of 66 months.

The AZ Transaction closed on February 14, 2025 with an effective closing date of February 10, 2025, which is the date the AZ Buyer assumed the financial benefit and risk relating to the AZ Purchased Assets. As of February 14, 2025, all closing conditions of the AZ Purchase Agreement had been met and that is the date that the AZ Transaction closed and the AZ Buyer assumed full managerial and operational control of the AZ Purchased Assets.

As of December 31, 2024, we had reclassified a total of $23.6 million to assets classified as held for sale, and $2.3 million to liabilities classified as held for sale on the consolidated balance sheets with respect to the AZ Purchased Assets.

Accounting Pronouncements

See Note 3, "New Accounting Standards and Accounting Changes" in the notes to our consolidated financial statements for the fiscal year ended 2024 included elsewhere in this Annual Report on Form 10-K for more information regarding the new accounting standards applicable to us.

Results of Operations for the Years Ended December 31, 2024 and 2023 *(Adjusted)*

Revenues and Gross Profit

(in ’000s of U.S. dollars)	Year Ended December 31, 2024	Year Ended December 31, 2023
Revenues		*(Adjusted)*
Eastern Region	$ 128,553	$ 105,922
Western Region	39,014	53,088
Other	—	227
Total revenues	**$ 167,567**	**$ 159,237**
Costs and expenses applicable to revenues (exclusive of depreciation and amortization expense)		
Eastern Region	$ (68,334)	$ (62,083)
Western Region	(24,119)	(33,479)
Other	—	(506)
Total costs and expenses applicable to revenues (exclusive of depreciation and amortization expense)	**$ (92,453)**	**$ (96,068)**
Gross profit		
Eastern Region	$ 60,219	$ 43,839
Western Region	14,895	19,609
Other	—	(279)
Total gross profit	**$ 75,114**	**$ 63,169**

The Eastern region includes our operations in Florida, Maryland, Massachusetts, New York, and New Jersey. Results from our Vermont and CBD businesses were included until March 8, 2023 and May 8, 2023, respectively, when they were deconsolidated. The Western region includes our operations in Arizona and Nevada. Results from our Nevada business was included until June 23, 2024, when it was then deconsolidated, while our Colorado operations were included until November 14, 2023, the date at which our remaining Colorado assets and investments were sold.

Eastern region

For the year ended December 31, 2024, our sales revenues in the eastern region were $128.6 million as compared to $105.9 million for the year ended December 31, 2023, which represents an increase of 21.4%. The main drivers for the increase in revenues are from the launch of our adult-use programs in both Maryland and New Jersey in July 2023 accounting for $12.9 million of the year-over-year increase and further expansion of our wholesale programs in both states accounting for $8.3 million of the year-over-year increase. Further, retail revenues increased in Florida by $2.8 million and New York by $1.2 million, from higher volume associated with discounts and promotions offered in these markets during the year ended December 31, 2024, as compared to the year ended December 31, 2023. This was partially offset by $2.6 million in lower retail revenues in Massachusetts, as a result of increased competition leading to lower revenues and labor challenges which led to temporary store closures at certain dispensaries during the year ended December 31, 2024, as compared to the year ended December 31, 2023, and from lower revenues of $0.1 million in Vermont as it was deconsolidated as of March 8, 2023.

For the year ended December 31, 2024, gross profit was $60.2 million, or 46.8% of sales revenues, as compared to a gross profit of $43.8 million, or 41.4% of sales revenues, for the year ended December 31, 2023. Gross profit increased in Maryland and New Jersey by $12.8 million as we continue to produce and sell more higher margin in-house products to meet adult-use demand during the year ended December 31, 2024, as compared to the year ended December 31, 2023. Gross profit increased in New York by $0.6 million from higher retail demand during the year ended December 31, 2024, as compared to the year ended December 31, 2023, with the sustained revenue growth attributable to marketing activities and other promotional programs in the state. Additionally, gross profits increased by $3.0 million due to lower facility costs in Massachusetts subsequent to the merging of two facilities in the second half of 2023 and focus on producing more in-house products during the year ended December 31, 2024, as compared to the year ended December 31, 2023. Further, we increased sales promotions in Florida to remain competitive against pricing pressures within the state.

During the year ended December 31, 2024, approximately 56,460 pounds of plant material was harvested in the eastern region as compared to approximately 33,730 pounds harvested during the year ended December 31, 2023. There was an increase in harvested plant material in New Jersey, primarily attributable to increased cultivation and production activities, following the commencement of adult-use operations at the Pleasantville facility in July 2023. There were lower volumes in Florida following the impact of Hurricane Milton, and in Massachusetts, harvested plant material decreased during the year ended December 31, 2024, as compared to the year ended December 31, 2023, as only our Fall River facility was operational during the year ended December 31, 2024, as compared to harvests from both Fall River and Holliston facilities during the year ended December 31, 2023.

Western region

For the year ended December 31, 2024, our sales revenues in the western region were $39.0 million as compared to $53.1 million for the year ended December 31, 2023, which represents a decrease of 26.5%. The decrease in revenue in the western region is attributable to $12.1 million in lower retail revenues in Arizona, attributed to reduced demand arising from increased competition throughout the state during the year ended December 31, 2024, as compared to the year ended December 31, 2023. Additionally, we deconsolidated our Nevada operations as of June 24, 2024, and therefore, less than six months' revenue of $1.3 million is consolidated during the year ended December 31, 2024, as compared to a revenue of $3.3 million for the full year ended December 31, 2023.

For the year ended December 31, 2024, gross profit was $14.9 million, or 38.2% of sales revenues, as compared to a gross profit of $19.6 million, or 36.9% of sales revenues, for the year ended December 31, 2023. The lower gross profit during the year ended December 31, 2024, as compared to the year ended December 31, 2023, is attributed to lower demand, given the highly competitive market in Arizona and from deconsolidation of our Nevada business as of June 24, 2024. Alternatively, the increase in gross margin is attributable to lower inventory purchase costs and from the sale of higher margin medical products in Arizona during the year ended December 31, 2024, as compared to the year ended December 31, 2023. In addition, the Nevada business was operating at a loss, and therefore the increase in gross profit margin is attributable to lower gross losses from the Nevada business following its deconsolidation.

During the year ended December 31, 2024, approximately 4,500 pounds of plant material was harvested in the western region as compared to approximately 7,430 pounds harvested during the year ended December 31, 2023. The decrease is attributed to lower production activity in Nevada, as the business was deconsolidated as of June 24, 2024 compared to a full year of harvests for the year ended December 31, 2023. In addition, there was a decrease in harvest output in Arizona given the lower demand as previously mentioned during the year ended December 31, 2024 as compared to the year ended December 31, 2023.

Other revenues

For the year ended December 31, 2024, other revenues were $Nil as compared to $0.2 million for the year ended December 31, 2023. Similarly, other gross profits was $Nil for the year ended December 31, 2024, as compared to a negative $0.3 million for the year ended December 31, 2023. The changes in other revenues and other gross profits is due to the deconsolidation of our CBD business as of May 8, 2023.

Expenses

(in ’000s of U.S. dollars)	Year Ended December 31, 2024	Year Ended December 31, 2023 *(Adjusted)*
Total operating expenses	$ 83,627	$ 92,904
Total other expenses	16,800	19,723
Income tax (benefit) expense	(17,678)	27,163

Selling, General and Administrative Expenses Details

(in ’000s of U.S. dollars)	Year Ended December 31, 2024	Year Ended December 31, 2023 *(Adjusted)*
Salaries and employee benefits	$ 28,781	$ 30,111
Severance	257	1,110
Share-based compensation	2,107	4,535
Legal and other professional fees	7,943	8,913
Facility, insurance and technology costs	13,004	12,634
Marketing expenses	3,590	4,347
Travel and pursuit costs	1,257	902
Amortization on right-of-use assets	2,055	2,027
Other general corporate expenditures	3,188	3,284
Total	**$ 62,182**	**$ 67,863**

Total operating expenses

Total operating expenses other than those included in costs and expenses applicable to revenues consist of: (i) selling, general, and administrative expenses which are necessary to conduct our ordinary business operations as well as support marketing, technology, and other growth initiatives such as opening new dispensaries and building-out our facilities; (ii) depreciation and amortization charges taken on our fixed and intangible assets; and (iii) any write-downs or impairment on our assets. We have taken measures to control our discretionary spending and to employ capital efficiently. However, we expect total operating expenses to increase as we continue to invest in our operations and capital projects, attract and retain top talent, and implement robust technology systems in our corporate, retail and cultivation and manufacturing facilities.

For the year ended December 31, 2024, our total operating expenses were $83.6 million as compared to $92.9 million for the year ended December 31, 2023, which represents a decrease of 10.0%.

The decrease in total operating expenses resulted from a decrease of $5.7 million of our selling, general, and administrative expenses which is attributable to: $2.4 million decrease in share-based compensation as the majority of outstanding employee RSU's fully vested in July 2023: $0.9 million decrease in severance expenses during the year ended December 31, 2024, as compared to the year ended December 31, 2023; $1.3 million decrease in our salaries and employee expenses from lower emoluments during the year ended December 31, 2024, as compared to the year ended December 31, 2023; $1.7 million decrease in marketing, legal and other professional fees during the year ended December 31, 2024, as compared to the year ended December 31, 2023; and a $0.1 million decrease in general corporate expenditures and facility expenses during the year ended December 31, 2024, as compared to the year ended December 31, 2023. This was partially offset by a $0.4 million increase in facility, insurance and technology costs and a $0.3 million increase in travel costs during the year ended December 31, 2024, as compared to the year ended December 31, 2023.

The decrease in total operating expenses is also attributable to a $2.5 million decrease in our depreciation and amortization expenses during the year ended December 31, 2024 as compared to the year ended December 31, 2023. Our total depreciable asset base has decreased as certain fixed asset items are now fully depreciated, net of any additions during the year.

Further, the decrease in total operating expenses is attributable to a $1.1 million increase in recoveries, write-downs and other charges, net, primarily from $2.6 million in gain recognized from the disposal of the Purchased Assets in Massachusetts during the year ended December 31, 2024, compared to $0.4 gain from the deconsolidation of Vermont and CBD entities during the year ended December 31, 2023 and a $0.1 million gain recognized on an early termination of a lease in Florida, partially offset by additional credit loss provisions of $0.9 million and settlement costs of $0.3 million recognized during the year ended December 31, 2024, as compared to immaterial write downs during the year ended December 31, 2023.

During the year ended December 31, 2024, excise taxes were $0.8 million (December 31, 2023—$0.8 million). Excise taxes are included as part of the selling, general, and administrative expenses on the consolidated statements of operations.

Total other income and expenses

Total other income and expenses includes income and expenses that are not included in the ordinary day-to-day activities of our business. This includes interest and accretion expenses on our financing arrangements, fair value gains or losses on our financial instruments, and income earned from arrangements that are not from our ordinary revenue streams of retail, wholesale, or delivery of cannabis products.

For the year ended December 31, 2024, our total other expenses were $16.8 million as compared to $19.7 million for the year ended December 31, 2023, which represents a decrease of 14.8%.

The decrease in total other income and expenses between the years ended December 31, 2024 and 2023 is attributable to: $1.2 million decrease in loss on debt extinguishment related to the February 16, 2024 amendment (the "2024 NJ Amendment") to the Senior Secured Bridge Notes, which resulted in a loss of $0.1 million during the year ended December 31, 2024, as compared to an amendment fee for the Senior Secured Bridge Notes of $1.3 million during the year ended December 31, 2023 from the first amendment of the NJ Senior Secured Notes in February 2023; a $3.8 million increase in interest and other income, mainly attributed to a $2.1 million gain on deconsolidation of our Nevada operations, $1.1 million in income from ATM revenues and license fees, $0.7 million gain from certain vendor accruals and foreign currency translations, partially offset by a $0.1 million decrease in rental income from sublease arrangements during the year ended December 31, 2024, as compared to the year ended December 31, 2023.

The decrease in total other expenses was partially offset by a $1.4 million increase in interest expense, attributable to the Secured and Unsecured Debentures interest which are paid-in-kind and therefore, each subsequent quarter will accrue higher interest as the principal balance increased during the year ended December 31, 2024 as compared to the year ended December 31, 2023; a $0.7 million increase in accretion expense during the year ended December 31, 2024, relating to the amended NJ Senior Secured Bridge Notes which was renewed in February 2024; and a loss of less than $0.1 million from changes in carrying value on certain financial instruments during the year ended December 31, 2024, as compared to the year ended December 31, 2023.

Income tax expense

As a result of operating in the cannabis industry, we consider the limitations of Internal Revenue Code Section 280E (“Section 280E”) which generally allows a deduction for expenses directly related to sales of product. Our effective tax rate differs from the statutory tax rate primarily as a result of changes in our valuation allowance, consideration of certain permanent items, and penalties & interest on outstanding tax liabilities.

For the year ended December 31, 2024, we had a tax benefit of $17.7 million as compared to an expense of $27.2 million for the year ended December 31, 2023, which represents an income tax expense decrease of 165.1%. The $17.7 million benefit in income tax is primarily attributable to changes in our valuation allowance due to our ability to realize certain deferred tax assets from our consolidated income tax filings.

Liquidity and Capital Resources

As of December 31, 2024, we held unrestricted cash of $18.5 million (December 31, 2023 - $13.1 million), had an accumulated deficit of $1,335.3 million (December 31, 2023 - $1,327.6 million), and a working capital deficit of $0.7 million (December 31, 2023 - $79.9 million deficit). In assessing our liquidity, we monitor our cash on-hand and our expenditures required to execute our day-to-day operations and our long-term strategic plans. To date, we have financed our operations through equity and debt financings and from our cash flows from operations and we anticipate that we will need to raise additional capital to fund our operations and capital plans in the future. We expect to finance these activities through a combination of additional financings and cash flows from our operations. However, we may be unable to raise additional funds when needed and on favorable terms, or at all, which may have a negative impact on our financial condition and could force us to curtail or cease our operations. Furthermore, our outstanding debt instruments impose certain restrictions on our operating and financing activities, including certain restrictions on our ability to incur certain additional indebtedness, grant liens, make certain dividends and other payment restrictions affecting our subsidiaries, issue shares or convertible securities and sell certain assets. Even if we believe we have sufficient funds for our current or future plans, we may seek additional capital due to favorable market conditions and/or for strategic opportunities and initiatives.

Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which assumes that we will continue to operate as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. Our ability to continue as a going concern is dependent upon our ability to raise additional capital, our ability to achieve sustainable revenues and profitable operations, and our ability to obtain the necessary capital to meet our obligations and repay our liabilities when they become due.

While we believe that we have funding necessary for us to continue as a going concern, we may need to raise additional capital and there can be no assurance that such capital will be available to us on favorable terms, if at all. As such, these material circumstances cast substantial doubt on our ability to continue as a going concern for a period of no less than 12 months from the date of this report, and our consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently plan due to incorrect assumptions or due to a decision to expand our activities beyond those currently planned.

Cash Flow for the Year Ended December 31, 2024 as Compared to the Year Ended December 31, 2023 *(Adjusted)*

Operating Activities

Our net cash flows from operating activities are affected by several factors, including revenues generated by operations, increases or decreases in our operating expenses, including expenses related to new capital projects and development of existing or newly acquired businesses and the level of cash collections received from our customers.

Net cash provided by operating activities during the year ended December 31, 2024 was $12.5 million as compared to $3.8 million for the year ended December 31, 2023. The increase in our net cash provided from operating activities during the year ended December 31, 2024, as compared to the year ended December 31, 2023, was primarily due to the following: our net loss of $7.6 million, offset by: $24.7 million of depreciation and amortization expense; $17.2 million in interest expense; $2.1 million in share-based compensation expense; $4.6 million of accretion expense; $0.1 million in loss on debt extinguishment from the amendment of our Senior Secured Bridge Notes; $0.2 million loss on our equity method investment; $0.4 million from additional inventory reserves; $1.2 million in recoveries, write-downs and other charges, net, from $2.6 million gain recognized from the disposal of Holliston assets; and $0.1 million gain recognized on the early termination of a lease, partially offset by additional credit loss provisions of $1.2 million and settlement costs of $0.3 million; and $5.6 million from changes in operating assets and liabilities items during the year ended December 31, 2024.

Changes in other operating assets for the year ended December 31, 2024, include: a decrease in inventory of $1.2 million, primarily due to enhanced sales planning and higher efficiencies gained within better company-wide inventory management during the year ended December 31, 2024 as compared to the year ended December 31, 2023; an increase in accounts receivable of $0.9 million from higher wholesale revenues and timing of collections during the year ended December 31, 2024 as compared to December 31, 2023; and an increase in prepaid expenses of $0.2 million during the year ended December 31, 2024, mainly relating to timing of renewals for insurance and rent, as compared to the year ended December 31, 2023.

Changes in other operating liabilities for the year ended December 31, 2024, include an increase in uncertain tax position liabilities of $54.3 million due to certain income taxes being recognized as an uncertain tax position during the year ended December 31, 2024, as compared to the year ended December 31, 2023; decrease in accrued and other current liabilities of $81.1 million from additional accrued income taxes and certain amended tax liabilities being reclassified to uncertain tax positions, and a $5.8 million decrease in accounts payable, as compared to the year ended December 31, 2023.

As we continue to expand our operations and as these operations become more established, we continue to expect cash flow to be provided from operations, and we intend to place less reliance on financing from other sources to fund our operations. Although we expect to continue to have positive cash flows from operations in 2025, no assurance can be given that we will have positive cash flows in the future.

Investing Activities

Net cash used in investing activities during the year ended December 31, 2024 was $6.3 million as compared to $4.4 million for the year ended December 31, 2023. The increase in cash used in investing activities was primarily attributable to: higher spend on cultivation and dispensary construction expenditures of $5.5 million, mainly related to facility build-out in the North-East and additional dispensaries in Florida, during the year ended December 31, 2024 as compared to $3.6 million during the year ended December 31, 2023; lower proceeds from the sale of certain assets of $0.5 million, compared to $2.5 million, as we sold our cultivation and dispensary assets in Colorado during the year ended December 31, 2023; we contributed $0.4 million to our investments in associates during the year ended December 31, 2024, as compared to $0.8 million during the year ended December 31, 2023; and incurred consideration payments of $0.7 million with respect to the acquisition of the Cheetah Purchased Assets (the "Cheetah Acquisition") during the year ended December 31, 2024, compared to $Nil during the year ended December 31, 2023.

The increase was partially offset by a decrease in other intangible assets expenditures of $2.3 million primarily related to adult-use license application fees in Maryland and New Jersey during the year ended December 31, 2023 as compared to immaterial capitalized intangible asset expenditures during the year ended December 31, 2024.

Financing Activities

Net cash used in financing activities for the year ended December 31, 2024 was $0.3 million as compared to net cash used in financing activities of $0.6 million for the year ended December 31, 2023. During the year ended December 31, 2024, we paid $0.3 million on our employees' behalf as part of RSU issuances as compared to $0.6 million during the year ended December 31, 2023. Further, we repaid $0.1 million of debt during the year ended December 31, 2024, compared to less than $0.1 million debt repaid during the year ended December 31, 2023.

Off-Balance Sheet Arrangements

As of December 31, 2024, we had no off-balance sheet arrangements.

Related Party Transactions

Upon the closing of the Recapitalization Transaction, certain of our lenders held greater than 5% of the voting interests in our Company and therefore are classified as related parties. See "Note 15 - Related Party Transactions" in the notes to our consolidated financial statements for the fiscal year ended 2024 included elsewhere in this Annual Report on Form 10-K for more information.

Effective as of October 11, 2023 (the "October Resignation Date"), Robert Galvin, our then-Interim Chief Operating Officer, resigned from his executive positions, including all positions with our subsidiaries and affiliates. In connection with the resignation, we executed a separation agreement (the "October Separation Agreement"), pursuant to which, Mr. Galvin received certain compensation and benefits valued to substantially equal the value of entitlements he would have received under Section 4(f) of his employment agreement. Specifically, Mr. Galvin received: (i) total cash compensation in the amount of approximately $0.4 million, which was paid in a lump sum on January 5, 2024; (ii) a grant of RSUs with an aggregate fair market value of approximately $0.4 million, which vested fully on January 4, 2024. Under the terms of the October Separation Agreement, we paid the monthly premium for Mr. Galvin's continued participation in the Company's health and dental insurance benefits pursuant to COBRA for one year following the October Resignation Date. Mr. Galvin served in a consulting role for three months following the October Resignation Date at a base compensation rate of $25 per month. As of December 31, 2024, the total balance owed to Mr. Galvin is $Nil (December 31, 2023 - $0.4 million).

Effective as of April 5, 2024 (the "Faraut Resignation Date"), Philippe Faraut, our then-Chief Financial Officer, resigned from his executive positions, including all positions with our subsidiaries and affiliates. in connection with the resignation, we and Mr. Faraut executed a separation agreement (the "Faraut Separation Agreement"), pursuant to which, Mr. Faraut received certain compensation and benefits valued to substantially equal the value of entitlements he would have received under Section 4(g) of his employment agreement. Specifically, Mr. Faraut received total cash compensation in the amount of approximately $0.2 million, which was payable in equal installments of approximately $25,000 per month over a period of 7 months following the Effective Date (as defined in the Faraut Separation Agreement). Under the terms of the Faraut Separation Agreement, we will continue to pay the monthly premium for Mr. Faraut's continued participation in the Company's health and dental insurance benefits pursuant to COBRA for one year from the Faraut Resignation Date. Mr. Faraut served in a consulting role for one month following the Faraut Resignation Date at a base compensation rate of $25,000 per month. Pursuant to the Faraut Separation Agreement, the RSUs granted to Mr. Faraut on November 23, 2022 and May 17, 2023 accelerated and fully vested upon satisfactory completion of Mr. Faraut's consulting services. Further, the RSUs granted to Mr. Faraut on September 1, 2023 and November 15, 2023 were forfeited as of the Faraut Resignation Date. As of December 31, 2024, the total balance owed to Mr. Faraut is $Nil (December 31, 2023 - $Nil).

Pursuant to the terms of the Third Amended and Restated Secured Debenture Purchase Agreement (the "Secured DPA"), dated as of June 24, 2022, with ICM, the other Credit Parties (as defined in the Secured DPA), the collateral agent, and the New Secured Lenders, we have a related party payable of $6.3 million due to certain of the New Secured Lenders, including Gotham Green Fund 1, L.P., Gotham Green Fund 1 (Q), L.P., Gotham Green Fund II, L.P., Gotham Green Fund II (Q), L.P., Oasis Investment Master II Fund LTD., Senvest Global (KY), LP, Senvest Master Fund, LP and Hadron Healthcare and Consumer Special Opportunities Master Fund, for certain out-of-pocket costs, charges, fees, taxes and other expenses incurred by the New Secured Lenders in connection with the closing of the Recapitalization Transaction (the "Deferred Professional Fees"). These New Secured Lenders held greater than 5.0% of the outstanding common shares of the Company upon the closing of the Recapitalization Transaction and are therefore considered to be related parties. We had until December 31, 2022, to pay the Deferred Professional Fees ratably based on the amount of each New Secured Lender's Deferred Professional Fees. The Deferred Professional Fees accrued simple interest at the rate of 12.0% from the Closing Date until December 31, 2022. Beginning with the first business day of the month following December 31, 2022, interest shall accrue on the Deferred Professional Fees at the rate of 20.0% calculated on a daily basis and is payable on the first business day of every month until the Deferred Professional Fees and accrued interest thereon is paid in full. As of December 31, 2024, the outstanding related party portion of the Deferred Professional Fees including accrued interest was $9.2 million (December 31, 2023 – $8.0 million). The related party balance is presented in accrued and other current liabilities on the consolidated balance sheets.

Pursuant to the terms of 2024 NJ Amendment, interest accruing after February 16, 2024 will be payable in cash on the last day of each fiscal quarter (the first such interest payment date being May 16, 2024). As of December 31, 2024, the outstanding related party portion of the interest payable was $0.2 million (December 31, 2023 - $Nil) presented in accrued and other current liabilities on the consolidated balance sheets.

Critical Accounting Policies and Accounting Estimates

Critical Accounting Policies

Inventories

Inventory is comprised of supplies, raw materials, finished goods and work-in-process such as harvested cannabis plants and by-products to be harvested. Inventory is valued at the lower of cost, determined on a weighted average cost basis, and net realizable value. The direct and indirect costs of inventory initially include the costs to cultivate the harvested plants at the time of harvest. They also include subsequent costs such as materials, labor, and overhead involved in processing, packaging, labeling, and inspection to turn raw materials into finished goods. All direct and indirect costs related to inventory are capitalized as they are incurred and are subsequently recorded within costs and expenses applicable to revenues in the consolidated statements of operations at the time of sale.

Leases

We lease some items of property, plant and equipment, office, cultivation, processing and dispensary space. On the lease commencement date, a lease is classified as a finance lease or an operating lease based on the classification criteria of the lease guidance under GAAP. As of January 1, 2019, we adopted Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Topic 842 Leases ("ASC 842") and applied the lease classification criteria contained therein for any new leases. Upon adoption of ASC 842, we recorded right-of-use ("ROU") assets for all of our leased assets classified as operating leases. The ROU assets were computed as the present value of future minimum lease payments, including additional payments resulting from a change in an index such as a consumer price index or an interest rate, plus any prepaid lease payments minus any lease incentives received. A lease liability was also recorded at the same time. No ROU asset is recorded for leases with a lease term, including any reasonably assured renewal terms, of 12 months or less.

Share-based Compensation

Share-based awards are measured at the fair value of the stock options at the grant date and recognized as expense over the requisite service periods in our consolidated statements of operations. The fair value of options is determined using the Black-Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the share-based awards granted shall be based on the number of awards that eventually vest. Amounts recorded for forfeited or expired unexercised options are accounted for in the year of forfeiture. Upon the exercise of stock options, consideration received on the exercise of share-based awards is recorded as paid-in-capital.

Share-based compensation expense includes compensation cost for employee and non-employee share-based payment awards granted and all modified or cancelled awards. In addition, compensation expense includes the compensation cost, based on the grant-date fair value calculated under ASC 718-10-55. We recognize compensation expense for share-based awards on a straight-line basis over the requisite service period for awards that vest solely based on a service condition. Compensation expense for equity awards that vest based on both service and performance conditions are recognized over the requisite service period of the award using the graded vesting method. Share-based compensation expense is not adjusted for estimated forfeitures, but instead adjusted upon an actual forfeiture of a stock option. We utilize the risk-free rate determined by the market yield on Government of Canada marketable bonds over the contractual term of the instrument being issued.

Business Combinations

In accordance with the FASB ASC Topic 805 Business Combinations ("ASC 805"), we allocate the fair value of the purchase consideration to the tangible and intangible asset purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets acquired and liabilities assumed requires estimates and the use of valuation techniques when a market value is not readily available. Any excess of purchase price over the fair value of net tangible and intangible assets acquired is allocated to goodwill. If we obtain new information about the facts and circumstances that existed as of the acquisition date during the measurement period, which may be up to one year from the acquisition date, we may record an adjustment to the assets acquired and liabilities assumed.

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the accounting considerations on and after acquisition.

Debt Modifications and Extinguishments

In accordance with the FASB ASC Topic 470-50 Debt Modifications and Extinguishments ("ASC 470-50"), we determine the fair value of any debt modified or extinguished on the closing date of the modification as well as the fair value of what was received in exchange of any debt modification or extinguishment. The determination of these fair values requires estimates and the use of valuation techniques when a market value is not readily available. Any difference between the exchange resulting from a debt modification or extinguishment may result in a gain or loss on debt extinguishment within our consolidated statements of operations.

Critical Accounting Estimates

The preparation of our consolidated financial statements and related disclosures in conformity with GAAP and our discussion and analysis of our financial condition and operating results require our management to make judgments, assumptions and estimates that affect the amounts reported. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Our significant accounting policies are described in Note 2, "Summary of Significant Accounting Policies," of the notes to consolidated financial statements included elsewhere in this Annual Report on Form 10-K describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. We believe the following critical accounting policies govern the more significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Estimated Useful Lives and Depreciation and Amortization of Long-Lived Assets

Depreciation and amortization of long-lived assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets. The estimated useful life and amortization or depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Inventories

Inventory is valued at the lower of cost, determined on a weighted average cost basis, and net realizable value. Net realizable value is determined as the estimated selling price less a reasonable estimate of the costs of completion, disposal, and transportation. The determination of net realizable value requires significant judgment, including consideration of factors such as shrinkage, the aging of and future demand for inventory, expected future selling price, what we expect to realize by selling the inventory and the contractual arrangements with customers. At the end of each reporting period, we perform an assessment of inventory obsolescence to measure inventory at the lower of cost or net realizable value. Factors considered in determining obsolescence include, but are not limited to, slow-moving inventory or products that can no longer be marketed.

Share-based Compensation

We use the Black-Scholes pricing model to determine the fair value of stock options granted under share-based payment arrangements. The critical assumptions and estimates used in determining the fair value of share-based compensation include: expected life of options, volatility of our future share price, risk free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Allowance for Credit Losses

We use the loss-rate method to estimate potential losses by applying an estimated loss rate to individual customer balances to determine the allowance for credit losses. If applicable, the Company also considers an evaluation of current economic conditions. Accounts receivable balances are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded within other income on the consolidated statement of operations when received. All receivables are expected to be collected within one year of the balance sheet date.

Contingent Consideration Payable

In connection with our Cheetah Acquisition, we recognized contingent consideration payables with payment dates ranging from 14-40 months from the acquisition date. These contingent consideration payables are classified as Level 3 liabilities in the fair value hierarchy and are valued using unobservable inputs and estimates of various factors, including financial forecasts, discount rates, and growth expectations. Changes in these estimates or the final figures on the payment dates could have an impact on the contingent consideration payable liabilities we record on our consolidated balance sheets.

JOBS Act

On April 5, 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

We have chosen to take advantage of the extended transition periods available to emerging growth companies under the JOBS Act for complying with new or revised accounting standards until those standards would otherwise apply to private companies provided under the JOBS Act. As a result, our financial statements may not be comparable to those of companies that comply with public company effective dates for complying with new or revised accounting standards.

Subject to certain conditions set forth in the JOBS Act, as an “emerging growth company,” we intend to rely on certain of these exemptions, including, without limitation, (i) providing an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley, and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an “emerging growth company” until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1.24 billion or more; (ii) the last day of our fiscal year following the fifth anniversary of the date of our initial public offering; (iii) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As a smaller reporting company, we are not required to provide the information required by this item.