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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to assist in the understanding of the results of operations and financial condition of Ascend Wellness Holdings, Inc. and its subsidiaries (collectively referred to as "AWH," "Ascend," "we," "us," "our," or the "Company"). This MD&A is provided as a supplement to, and should be read in conjunction with the consolidated financial statements and the accompanying notes thereto (the "Financial Statements") appearing elsewhere in this Annual Report on Form 10-K (the "Annual Report" or "Form 10-K"). The Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America, which we refer to as "GAAP."

This following MD&A should be read in conjunction with, and is qualified in its entirety by, the Financial Statements. In addition to historical information, this MD&A contains both historical and forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, and forward-looking information, within the meaning of applicable Canadian securities laws, (collectively, "forward-looking statements") that involve risks and uncertainties. Readers are further cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions, or expectations upon which they are placed will occur. Forward-looking statements in this MD&A are expressly qualified by this cautionary statement. See "*Forward-Looking Statements*" for more information.

Financial information and unit or share figures, except per-unit or per-share amounts, presented in this MD&A are presented in thousands of United States dollars ("$"), unless otherwise indicated. We round amounts in this MD&A to the thousands and calculate all percentages, per-unit, and per-share data from the underlying whole-dollar amounts. Thus, certain amounts may not foot, crossfoot, or recalculate based on reported numbers due to rounding. Unless otherwise indicated, all references to years are to our fiscal year, which ends on December 31.

The Company's shares of Class A common stock are listed on the Canadian Securities Exchange (the "CSE") under the ticker symbol "AAWH.U" and are quoted on the OTCQX® Best Market (the "OTCQX") under the symbol "AAWH." We are an emerging growth company under federal securities laws and as such we are able to elect to follow scaled disclosure requirements for this filing.

### BUSINESS OVERVIEW

Established in 2018 and headquartered in Morristown, New Jersey, AWH is a vertically integrated multi-state operator focused on adult-use or near-term adult-use cannabis states in limited license markets. Our core business is the cultivation, manufacturing, and distribution of cannabis consumer packaged goods, which we sell through our company-owned retail stores and to third-party licensed retail cannabis stores. We believe in bettering lives through cannabis. Our mission is to improve the lives of our employees, patients, customers, and the communities we serve through the use of the cannabis plant. We are committed to providing safe, reliable, and high-quality products and providing consumers options and education to ensure they are able to identify and obtain the products that fit their personal needs.

The Company was originally formed on May 15, 2018 as Ascend Group Partners, LLC, and changed its name to "Ascend Wellness Holdings, LLC" on September 10, 2018. On April 22, 2021, Ascend Wellness Holdings, LLC converted into a Delaware corporation and changed its name to "Ascend Wellness Holdings, Inc." and effected a 2-for-1 reverse stock split (the "Reverse Split"), which is retrospectively presented for all periods prior to that date that may be referenced in this filing. We refer to this conversion throughout this filing as the "Conversion." As a result of the Conversion, the members of Ascend Wellness Holdings, LLC became holders of shares of stock of Ascend Wellness Holdings, Inc.

Since our formation, we have expanded our operational footprint, primarily through acquisitions, and, as of December 31, 2024, had direct or indirect operations or financial interests in seven United States geographic markets: Illinois, Maryland, Massachusetts, Michigan, New Jersey, Ohio, and Pennsylvania. While we have been successful in opening cultivation facilities and dispensaries under our current licenses, we expect continued growth to be driven by opening dispensaries under our current licenses and through partnership opportunities, expansion of our current cultivation facilities, and increased consumer demand. We currently employ approximately 2,300 people.

Our consumer products portfolio is generated primarily from plant material that we grow and process ourselves. As of December 31, 2024, we produce our consumer packaged goods in six manufacturing facilities with approximately 255,000 square feet of total canopy. In January 2024, we entered into a definitive agreement, which is pending regulatory approval, to acquire a cultivation license and a manufacturer license that we intend to use at a second cultivation site in Massachusetts to further expand our production capacity in that market. We added approximately 15,000 square feet of total additional canopy with the additional site, which build out was largely completed during the second quarter of 2024, and anticipate the transaction will close in the first half of 2025. Our product portfolio consists of a range of cannabis product categories including flower, pre-rolls, concentrates, vapes, edibles, and other cannabis-related products. As of December 31, 2024, we had 39 open and operating retail locations, including 2 partner locations, and, subsequently re-opened our Detroit, Michigan dispensary for a total of 40 dispensaries as of March 1, 2025, including 2 partner locations. We have fully-financed expansion plans to achieve a target of 60 total retail locations, including partner locations. Our new store opening plans are flexible and will ultimately depend on market conditions, local licensing, construction, and other regulatory permissions. Our expansion plans are subject to capital allocations decisions, the evolving regulatory environment, and the general economic environment.

On November 22, 2022, the Company filed a registration statement on Form S-3 (the "Registration Statement") containing a base shelf prospectus with the SEC (the "Shelf Prospectus"), which Registration Statement became effective on December 22, 2022. A corresponding base shelf prospectus (the "Canadian Prospectus") was filed with, and receipted by, the securities regulatory authorities in each of the provinces and territories Canada under the U.S.-Canada multijurisdictional disclosure system (MJDS). The Registration Statement and Canadian Prospectus qualify the distribution from treasury of up to an aggregate amount of $100,000 worth of shares of Class A common stock, preferred stock, warrants, debt securities, subscription rights and/or units of the Company ("Securities") for a period of three years. The terms of any Securities to be offered under the base prospectus will be specified in a prospectus supplement, which will be filed with the applicable U.S. and Canadian securities regulatory authorities in connection with any such offering. To date, no prospectus supplement has been filed. The Shelf Prospectus and the Canadian Prospectus were filed to provide maximum flexibility to pursue strategic initiatives.

## Recent Developments

### *Business Developments*

The Company is continuously reviewing its footprint in order to optimize its operations, including expansion opportunities across the markets in which it operates. Some of the highlights achieved during the year include:

- completing the build out of a second cultivation facility in Massachusetts and adding an additional 15,000 square feet of canopy to further expand production capacity in that market;
- opening three dispensaries in Pennsylvania, opening our Cincinnati, Ohio flagship store, and providing support to two partnership dispensaries in Illinois;
- commencing non-medical sales at five dispensaries in Ohio; and
- generating $73,292 of net cash from operating activities, as further described in "*Liquidity and Capital Resources*."

### *Recent and Pending Transactions*

#### ***Massachusetts Cultivation***

In January 2024, the Company entered into a definitive agreement (the "Massachusetts Purchase Agreement") to purchase a cultivation license and a manufacturer license from a third party in Massachusetts for a cash purchase price of $2,750, which total may be adjusted at closing, as provided in the Massachusetts Purchase Agreement and of which $1,500 was paid at signing and $1,250 was paid on October 1, 2024. The transfer of each license is subject to regulatory review and approval, which the Company anticipates occurring within the first half of 2025. The licenses were not associated with active operations at signing, but operations have since commenced. In conjunction with the Massachusetts Purchase Agreement, the parties also entered into a bridge loan which provides for the financing of certain covered expenses, at the sole discretion of the Company. This bridge loan bears interest based on the federal funds rate and, if not otherwise satisfied, is due on the fifth anniversary of the signing date. The parties also entered into an interim consulting services agreement, effective as of the signing date. The Company accounted for this transaction as an asset acquisition as of the signing date based on the provisions of the underlying agreements and allocated the cash consideration as the cost of the license acquired. The Company has also agreed to assume the lease for the associated location and to reimburse the seller for the security deposit at final closing. The Company recognized a lease liability and ROU asset of $761 as of the signing date. Direct transaction costs were not material. Refer to Note 4, "Acquisitions," in the Financial Statements for additional information related to this transaction and to Note 10, "Leases," for additional information regarding the Company's leases.

#### ***Detroit License***

In September 2024, the Company acquired 49% of the member interests of an entity (the "Detroit License Holder") that received conditional approval for an adult-use license in Detroit, Michigan (the "Detroit License"). The Detroit License was not associated with active operations as of the closing date and the Detroit License Holder had no other active operations as of that date. The Company transferred the Detroit License to its existing dispensary in Detroit, Michigan, which re-opened in February 2025. The Company paid $850 of cash consideration at closing and the sellers may receive up to an additional $2,250 based upon the achievement of certain levels of sales during a specified twelve month period following the commencement of adult-use sales at the dispensary. The underlying agreement provides the Company with an option to acquire the remaining ownership interests in the Detroit License Holder, after such is permissible by applicable regulations, for no additional consideration. The parties also entered into a management services agreement, pursuant to which the Company is providing management and advisory services for a set monthly fee, which is expected to expire upon the Company's exercise of the option.

The Company determined that the Detroit License Holder is a variable interest entity ("VIE") and the Company became the primary beneficiary as of the closing date; therefore, the Detroit License Holder is consolidated as a VIE. The transaction consideration of $1,140 was allocated to the license acquired and consisted of the $850 of cash consideration plus the initial estimated fair value of the contingent consideration of $290. The Company determined the fair value of any noncontrolling interest is *de minimis*. Refer to Note 4, "Acquisitions," in the Financial Statements for additional information related to this transaction and to Note 8, "Variable Interest Entities," for additional information regarding the Company's VIEs.

***Ohio Patient Access***

On August 12, 2022, the Company entered into a definitive agreement (the "Ohio Agreement") that provides the Company the option to acquire 100% of the equity of Ohio Patient Access LLC ("OPA"), the holder of a license that grants it the right to operate three medical dispensaries in Ohio. The Ohio Agreement is subject to regulatory review and approval. Once the regulatory approval is received, the Company may exercise the option, and the exercise is solely within the Company's control. The Company anticipates exercising the option prior to the March 22, 2026 amended expiration date. Under the Ohio Agreement, the Company will also acquire the real property of the three dispensary locations. OPA had not yet commenced operations as of the signing date, but subsequently opened two dispensaries in December 2023 and a third in January 2024. The Company determined that OPA is a VIE and the Company became the primary beneficiary as of the signing date; therefore, OPA is consolidated as a VIE.

The Ohio Agreement also includes an earn-out provision of $7,300 that was dependent upon the commencement of adult-use cannabis sales in Ohio and which the sellers could elect to receive as either cash or shares of the Company's Class A common stock, or a combination thereof. The sellers elected to receive the payment in cash and such payment was made in July 2024. The parties amended the Ohio Agreement in June 2024 to incorporate certain provisions regarding evolving regulations in Ohio, including that the Company will, upon final closing of the Ohio Agreement, receive two additional adult-use licenses that are expected to be awarded to OPA. Refer to Note 4, "Acquisitions," in the Financial Statements for additional information regarding this transaction and refer to Note 8, "Variable Interest Entities," for additional information regarding the Company's VIEs.

***Illinois Licenses***

In August 2022, the Company entered into definitive agreements to acquire two additional licenses in Illinois for a combined total cash consideration of $11,100. Operations at one of the locations commenced during the second quarter of 2023 and the final closing occurred in April 2024. Operations at the second location commenced during the fourth quarter of 2023 and final closing occurred in July 2024. Refer to Note 4, "Acquisitions," in the Financial Statements for additional information related to these transactions.

***Variable Interest Entities***

*January 2024 Loan Agreement*

In January 2024, the Company entered into a loan agreement pursuant to which the Company may provide, at its sole discretion, up to $2,500 of financing (the "January 2024 Loan Agreement') to a third party (the "New Jersey Partnership"). The January 2024 Loan Agreement contains certain provisions and restrictive covenants that provide the Company with operational and financial influence over the underlying entity and also provides the Company with financial distributions based on the underlying associated results of operations. Additionally, the January 2024 Loan Agreement provides the Company with conversion options to obtain 35% of the equity interests of the borrower upon the initial funding (which occurred in January 2024) and up to an additional 65% of the remaining equity interest of the borrower at any time through October 2033, subject to certain provisions and regulatory approvals. The Company determined that the terms and provisions of the January 2024 Loan Agreement create a variable interest in the New Jersey Partnership and met the criteria for consolidation as of such date. The New Jersey Partnership received a conditional license approval for one dispensary in New Jersey that was determined to have a fair value of $1,050, which approximated the fair value of the non-controlling interest held by the New Jersey Partnership as of the effective date. The non-controlling interest received a distribution during 2024 in accordance with the provisions of the January 2024 Loan Agreement. The net loss attributable to the non-controlling interest was not significant during 2024. Since the New Jersey Partnership is consolidated as a VIE, the intercompany activity related to the January 2024 Loan Agreement is eliminated in consolidation. Refer to Note 8, "Variable Interest Entities," in the Financial Statements for additional information regarding the Company's VIEs.

*February 2024 Loan Agreement*

In February 2024, the Company entered into a loan agreement pursuant to which the Company may provide financing (the "February 2024 Loan Agreement") at its sole discretion to a third party (the "Illinois Partnership"). The February 2024 Loan Agreement initially provided for up to $3,750 of financing, but was amended in July 2024 to increase the funding amount based on the Company's sole discretion at such a time that the borrower requests additional funding. The parties also entered into a support services agreement under which the Company will provide management and advisory services for a set monthly fee. The terms of the February 2024 Loan Agreement contain certain provisions and restrictive covenants that provide the Company with operational and financial influence over the underlying entity. The February 2024 Loan Agreement provides the Company with the option to convert the outstanding balance into equity interests of the borrower, up to 100%, as may be permissible by applicable regulations at such time. The Company determined that the terms and provisions of the February 2024 Loan Agreement and support services agreement create a variable interest in the Illinois Partnership and met the criteria for consolidation as of such date. The Illinois Partnership held no assets at the time the agreements were entered into and the non-controlling interest was determined to have a *de minimis* fair value as of that date. The net loss attributable to the non-controlling interest was not significant during 2024. Since the entity is consolidated as a VIE, the intercompany activity related to the February 2024 Loan Agreement and the related support services agreement is eliminated in consolidation.

*Recent Activity*

Effective in April 2024, the Illinois Partnership acquired two dispensaries in the greater Chicago, Illinois area (the "Chicago Partner Dispensaries"). The parties entered into interim management services agreements ("MSAs") pursuant to which the Illinois Partnership will advise on certain business, operational, and financial matters for a monthly fee (the "Illinois MSAs") while the parties finalize asset purchase agreements to acquire the underlying dispensaries. The total purchase price of approximately $10,000 of cash consideration is subject to certain closing adjustments. An initial deposit of $1,500 was remitted during the first quarter of 2024. The remainder of $8,500 was remitted to escrow during the second quarter of 2024 and remained in escrow as of December 31, 2024. Based on the provisions of the Illinois MSAs, the Illinois Partnership obtained operational and financial influence over the dispensaries and therefore recognized the transaction as a business combination as of the April 2024 regulatory approval date of the Illinois MSAs. The asset purchase agreements in respect of the Chicago Partner Dispensaries are subject to regulatory review and approval. Refer to Note 4, "Acquisitions," for additional information related to this transaction and to Note 8, "Variable Interest Entities," for additional information regarding the Company's VIEs.

In December 2024, the Illinois Partnership entered into a definitive agreement to acquire the membership interests of an entity that anticipates receiving two adult-use licenses in Illinois, subject to regulatory approval. In conjunction with this definitive agreement, the parties entered into certain management services agreements under which the Illinois Partnership will, subject to regulatory review and approval, provide certain management and advisory services for a set fee. Total cash consideration for this transaction may be up to $4,000, subject to certain closing adjustments and of which $1,000 was paid at signing in December 2024 and is included within "Other assets" on the Consolidated Balance Sheet in the Financial Statements as of December 31, 2024. A total of up to $1,500 may be paid upon opening of the associated dispensary locations and a total of up to $1,500 may be paid upon final closing of the associated transaction.

***Operational and Regulation Overview***

We believe our operations are in material compliance with all applicable state and local laws, regulations, and licensing requirements in the states in which we operate. However, cannabis is illegal under United States federal law. Substantially all of our revenue is derived from United States cannabis operations. For information about risks related to United States cannabis operations, refer to Item 1A., "*Risk Factors*," of this Form 10-K.

**Key Financial Highlights**

- Revenue increased by $43,009, or 8%, during 2024, as compared to 2023, primarily driven by expansion of our cultivation activities and incremental revenue from acquisitions, partially offset by declines in certain legacy markets due to increased competition.

- Operating profit was $4,734 during 2024, as compared to an operating loss of $3,619 during 2023. The improvement was primarily driven by the expansion of wholesale production and leveraging of existing infrastructure, partially offset by slightly higher general and administrative expenses attributable to certain one-time costs, including expenses associated with our debt refinancing and other strategic initiatives.

- Net increase in cash and cash equivalents of $15,746 during 2024, primarily driven by a benefit from the timing and amount of tax payments, including certain tax refunds received, as well as the timing and management of payments related to working capital activities, partially offset by payments associated with acquisitions, investments in capital assets, and costs associated with our debt refinancing.

## RESULTS OF OPERATIONS

***The Year Ended December 31, 2024 Compared with the Year Ended December 31, 2023***

| | Year Ended December 31, | | Increase / (Decrease) | |
|---|---|---|---|---|
| *($ in thousands)* | **2024** | **2023** | | |
| Revenue, net | $ 561,599 | $ 518,590 | $ 43,009 | 8% |
| Cost of goods sold | (377,389) | (363,470) | 13,919 | 4% |
| **Gross profit** | 184,210 | 155,120 | 29,090 | 19% |
| *Gross profit %* | *32.8%* | *29.9%* | | |
| **Operating expenses** | | | | |
| General and administrative expenses | 179,476 | 158,739 | 20,737 | 13% |
| **Operating profit (loss)** | 4,734 | (3,619) | 8,353 | 231% |
| | | | | |
| Other (expense) income | | | | |
| Interest expense | (45,263) | (36,984) | 8,279 | 22% |
| Other, net | 707 | 25,843 | (25,136) | NM* |
| Total other expense | (44,556) | (11,141) | 33,415 | 300% |
| Loss before income taxes | (39,822) | (14,760) | 25,062 | 170% |
| Income tax expense | (45,172) | (33,454) | 11,718 | 35% |
| **Net loss** | $ (84,994) | $ (48,214) | $ 36,780 | 76% |

*Not meaningful

***Revenue***

Revenue increased by $43,009, or 8%, during 2024, as compared to 2023. Our revenue growth was primarily driven by $41,944 of incremental net revenue from our wholesale operations, in large part as a result of expansion across the markets in which we operate, particularly in New Jersey and Massachusetts. During 2024, we sold approximately 187,000 pounds of wholesale product, on a gross basis, compared to approximately 145,000 pounds sold during 2023. Additionally, we recognized $53,729 of incremental revenue from acquisitions, including $17,583 from the Devi Maryland acquisition that occurred during the second quarter of 2023 and benefited from the commencement of adult-use sales during the third quarter of 2023. This incremental increase was also driven by new store openings in 2024 and late 2023 associated with previously acquired licenses, including a benefit from the commencement of non-medical sales in Ohio, as well as a contribution of $4,000 of incremental revenue from partner stores. We had 39 open dispensaries as of December 31, 2024, compared to 34 as of December 31, 2023. These increases were offset by a decrease of $52,664 across our legacy locations, primarily in Illinois and New Jersey due to increased competition in those markets.

***Cost of Goods Sold and Gross Profit***

Cost of goods sold increased by $13,919, or 4%, during 2024, as compared to 2023. Cost of goods sold represents direct and indirect expenses attributable to the production of wholesale products as well as direct expenses incurred in purchasing products from other wholesalers. Gross profit for 2024 was $184,210, representing a gross margin of 32.8%, compared to gross profit of $155,120 and gross margin of 29.9% for 2023. Gross margin for the current year benefited from expanded production and improved utilization at our New Jersey cultivation facility and expansion of wholesale sales in that market, partially offset by increased competition and pricing pressure in certain retail markets. The current year also benefited from $13,491 of lower write-downs of certain inventory items that were largely driven by pricing pressure in the prior year.

***General and Administrative Expenses***

General and administrative expenses increased by $20,737, or 13%, during 2024, as compared to 2023. The increase was primarily related to:

- $6,203 of higher professional services fees, including expenses associated with our debt refinancing and other projects and strategic initiatives;
- a $5,447 increase in an estimated reserve related to certain amounts associated with a previous transaction (refer to *"Management's Discussion and Analysis of Financial Condition and Results of Operations–Legal Matters–MedMen NY Litigation"* for additional information)
- $5,445 of higher depreciation and amortization expense due to $3,285 of incremental amortization of intangible assets driven by prior year acquisitions and $2,160 of incremental depreciation expense due to a larger average balance of fixed assets in service;
- a $2,083 reserve and a $984 discount recognized on a long-term receivable;
- a $1,552 increase in compensation expense, due to higher average senior leadership headcount associated with the expansion of operations and severance costs associated with strategic streamlining in certain departments, partially offset by a reduction of certain equity-based compensation expenses due to the forfeiture of certain awards in the current year; and
- a $1,410 increase in overhead expenses due to expansion of operations; and

These increases were partially offset by the absence of a $1,484 write-off of previously capitalized construction projects during the prior year.

***Other, net***

Other, net decreased by $25,136 during 2024, as compared to 2023, primarily driven by the absence of a $22,794 employee retention tax credit claim (the "ERTC Claim") recognized during the prior year period and lower interest income due to the settlement of a loan receivable that was previously outstanding.

***Interest Expense***

Interest expense increased by $8,279, or 22%, during 2024, as compared to 2023. The increase was primarily driven by a $5,475 net loss on extinguishment associated with the prepayment of $215,000 of principal previously outstanding under a credit facility and higher cash interest associated with new term notes (refer to "*Liquidity and Capital Resources*" for further information). These increases were partially offset by lower non-cash accretion due to a lower average balance outstanding under a financing agreement. During 2024, we had a weighted-average outstanding debt balance of $321,097 with a weighted-average interest rate of 10.9%, compared to a weighted-average debt balance of $324,950 during 2023 with a weighted-average interest rate of 9.8%, excluding finance leases in each period.

***Income Tax Expense***

The Internal Revenue Service has taken the position that cannabis companies are subject to the limitations of Internal Revenue Code ("IRC") Section 280E, under which such companies are only allowed to deduct expenses directly related to the sales of product (cost of goods sold). This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E and those allowed for financial statement reporting purposes ("book-to-tax" differences). Cannabis companies operating in states that align their tax codes with IRC Section 280E are also unable to deduct ordinary and necessary business expenses for state tax purposes. Ordinary and necessary business expenses deemed non-deductible under IRC Section 280E are treated as permanent book-to-tax differences. Therefore, the effective tax rate on income realized by cannabis companies can be highly variable and may not necessarily correlate with pre-tax income or loss.

As of December 31, 2024 and 2023, the Company had an uncertain tax liability totaling $149,407 and $72,955, respectively, for uncertain tax positions related to the treatment of certain transactions and deductions under IRC Section 280E based on legal interpretations that challenge the Company's tax liability under IRC Section 280E; refer to Note 14, "Income Taxes," in the Financial Statements for additional information.

The statutory federal tax rate was 21% during both years. The Company has operations in seven U.S. geographic markets: Illinois, Maryland, Massachusetts, Michigan, Ohio, New Jersey, and Pennsylvania, which have state tax rates ranging from 6% to 11.5%. Certain states, including Illinois, Maryland, Massachusetts, Michigan, New Jersey, and Pennsylvania, do not align with IRC Section 280E for state tax purposes and permit the deduction of ordinary and necessary business expenses from gross profit in the calculation of state taxable income.

Income tax expense was $45,172, or 24.5% of gross profit, during 2024, as compared to $33,454, or 21.6% of gross profit, during 2023. The effective tax rate on gross profit for 2024 was impacted by higher penalties and interest due on tax payments and uncertain tax positions and the treatment of certain accounting reserves, partially offset by a benefit from an incremental impact attributable to the tax treatment of certain acquired intangible assets. Refer to Note 14, "Income Taxes," in the Financial Statements for additional information regarding the Company's income taxes.

**NON-GAAP FINANCIAL MEASURES**

We define "Adjusted Gross Profit" as gross profit excluding non-cash inventory costs which include depreciation and amortization included in cost of goods sold, equity-based compensation included in cost of goods sold, start-up costs included in cost of goods sold, and other non-cash inventory adjustments. We define "Adjusted Gross Margin" as Adjusted Gross Profit as a percentage of net revenue. Our "Adjusted EBITDA" is a non-GAAP measure used by management that is not defined by U.S. GAAP and may not be comparable to similar measures presented by other companies. We define "Adjusted EBITDA Margin" as Adjusted EBITDA as a percentage of net revenue. Management calculates Adjusted EBITDA as the reported net loss, adjusted to exclude: income tax expense, other (income) expense, interest expense, depreciation and amortization, depreciation and amortization included in cost of goods sold, non-cash inventory adjustments, equity-based compensation, equity-based compensation included in cost of goods sold, start-up costs, start-up costs included in cost of goods sold, transaction-related and other non-recurring expenses, litigation settlement, and gain or loss on sale of assets. Accordingly, management believes that Adjusted EBITDA provides meaningful and useful financial information, as this measure demonstrates the operating performance of the business. Non-GAAP financial measures may be considered in addition to the results prepared in accordance with U.S. GAAP, but they should not be considered a substitute for, or superior to, U.S. GAAP results.

The following table presents Adjusted Gross Profit for 2024 and 2023:

| | Year Ended December 31, | |
|---|---|---|
| *($ in thousands)* | **2024** | **2023** |
| Gross Profit | $ 184,210 | $ 155,120 |
| Depreciation and amortization included in cost of goods sold | 31,178 | 29,449 |
| Equity-based compensation included in cost of goods sold | 7,659 | 6,511 |
| Start-up costs included in cost of goods sold(1) | — | 1,570 |
| Non-cash inventory adjustments(2) | 2,859 | 16,350 |
| **Adjusted Gross Profit** | $ 225,906 | $ 209,000 |
| *Adjusted Gross Margin* | *40.2%* | *40.3%* |

(1) Incremental expenses associated with the expansion of activities at our cultivation facilities that are not yet operating at scale, including excess overhead expenses resulting from delays in regulatory approvals at certain cultivation facilities.

(2) Consists of write-offs of expired products, obsolete packaging, and net realizable value adjustments related to certain inventory items.

The following table presents Adjusted EBITDA for the 2024 and 2023:

| | Year Ended December 31, | |
|---|---|---|
| *($ in thousands)* | **2024** | **2023** |
| Net loss | $ (84,994) | $ (48,214) |
| Income tax expense | 45,172 | 33,454 |
| Other income, net | (707) | (25,843) |
| Interest expense | 45,263 | 36,984 |
| Depreciation and amortization | 66,157 | 58,983 |
| Non-cash inventory adjustments[1] | 2,859 | 16,350 |
| Equity-based compensation | 18,480 | 18,344 |
| Start-up costs[2] | 3,185 | 3,888 |
| Transaction-related and other non-recurring expenses[3] | 20,746 | 12,788 |
| Loss (gain) on sale of assets | 16 | (226) |
| **Adjusted EBITDA** | $ 116,177 | $ 106,508 |
| *Adjusted EBITDA Margin* | *20.7%* | *20.5%* |

(1) Consists of write-offs of expired products, obsolete packaging, and net realizable value adjustments related to certain inventory items.

(2) One-time costs associated with acquiring real estate, obtaining licenses and permits, and other costs incurred before commencement of operations at certain locations, as well as incremental expenses associated with the expansion of activities at our cultivation facilities, including excess overhead expenses resulting from delays in regulatory approvals at certain cultivation facilities. Also includes other one-time or non-recurring expenses, as applicable.

(3) Other non-recurring expenses including legal and professional fees associated with litigation matters, potential acquisitions, other regulatory matters, and other reserves or one-time expenses. The 2024 amount includes a reserve of $5,447 related to certain amounts associated with a previous transaction, a reserve of $2,083 and a $984 discount that are associated with a long-term receivable, and approximately $3,600 of expenses associated with our debt refinancing in addition to certain one-time professional fees and severance expenses associated with certain strategic initiatives. The 2023 amount includes a reserve of $1,804 on a note receivable and $7,082 of severance-related expenses, including certain contract termination payments. The 2024 and 2023 amounts include a fair value adjustment of $630 and $1,594, respectively, related to the OPA acquisition earn-out.

***The Year Ended December 31, 2023 Compared with the Year Ended December 31, 2022***

For a discussion comparing our operating results for the year ended December 31, 2023 with the year ended December 31, 2022, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Form 10-K for the year ended December 31, 2023, filed with each of the U.S. Securities and Exchange Commission and the relevant Canadian securities regulatory authorities on March 13, 2024.

## LIQUIDITY AND CAPITAL RESOURCES

We are an emerging growth company and our primary sources of liquidity are operating cash flows, borrowings through the issuance of debt, and funds raised through the issuance of equity securities. We are generating cash from sales and deploying our capital reserves to acquire and develop assets capable of producing additional revenue and earnings over both the immediate and long term. Capital reserves are being utilized for acquisitions in the medical and adult-use cannabis markets, capital expenditures and improvements in existing facilities, and product development and marketing, as well as customer, supplier, and investor and industry relations.

### Financing History and Future Capital Requirements

Historically, we have used private financing as a source of liquidity for short-term working capital needs and general corporate purposes. In May 2021, we completed an Initial Public Offering ("IPO") of shares of our Class A common stock through which we raised aggregate net proceeds of approximately $86,065 after deducting underwriting discounts and commissions and certain direct offering expenses paid by us. In August 2021, we entered into a credit facility under which we initially borrowed $210,000 through term loans. During the second quarter of 2022, we borrowed an additional $65,000 of term loans from certain lenders under the expansion feature of this credit facility, as further described below. Additionally, during the second quarter of 2023, we raised an aggregate of $7,000 in gross proceeds through a non-brokered private placement offering of an aggregate of 9,859 shares of the Company's Class A common stock to a single investor. In July 2024, we issued term notes in aggregate principal of $235,000, which proceeds were used, together with cash on hand, to prepay a portion of our other term loans then-outstanding, as discussed further below.

Our future ability to fund operations, to make planned capital expenditures, to acquire other entities or investments, to make scheduled debt payments, and to repay or refinance indebtedness depends on our future operating performance, cash flows, and ability to obtain equity or debt financing, which are subject to prevailing economic conditions, as well as financial, business, and other factors, some of which are beyond our control.

As of December 31, 2024 and 2023, the Company had total current liabilities of $144,541 and $92,686, respectively, and total current assets of $229,376 and $228,860, respectively, which includes cash and cash equivalents of $88,254 and $72,508, respectively, to meet its current obligations. As of December 31, 2024, the Company had working capital of $84,835, compared to $136,174 as of December 31, 2023.

Approximately 93% and 90% of the Company's cash and cash equivalents balance as of December 31, 2024 and 2023, respectively, is on deposit with banks, credit unions, or other financial institutions. We have not experienced any material impacts related to banking restrictions applicable to cannabis businesses. Our cash and cash equivalents balance is not restricted for use by variable interest entities.

As reflected in the Financial Statements, we had an accumulated deficit as of December 31, 2024 and 2023, as well as a net loss for 2024, 2023, and 2022, respectively. While we generated positive cash flows from operating activities during 2024 and 2023, historical cash flows from operating activities were negative. These financial factors are indicators that raise substantial doubt of our ability to continue as a going concern. Management believes that substantial doubt of our ability to continue as a going concern for at least one year from the issuance of our Financial Statements has been alleviated due to: (i) cash on hand and (ii) continued growth of sales from our consolidated operations. Management plans to continue to access capital markets for additional funding through debt and/or equity financings to supplement future cash needs, as may be required. However, management cannot provide any assurances that the Company will be successful in accomplishing its business plans. If we are unable to raise additional capital on favorable terms, if at all, whenever necessary, we may be forced to decelerate or curtail certain of our operations until such time as additional capital becomes available.

**2024 Term Notes**

On July 16, 2024, the Company issued $235,000 in aggregate principal of senior secured notes due July 16, 2029 (the “2024 Term Notes”) through a private placement (the “2024 Notes Offering”) pursuant to an indenture agreement (the “July 2024 Loan Agreement”). The 2024 Term Notes were issued at 94.75% of face value and do not require scheduled principal amortization payments. The 2024 Term Notes bear interest at a rate of 12.75% per annum, payable semi-annually in arrears on January 15 and July 15 of each year until the maturity date, commencing on January 15, 2025, unless earlier prepaid in accordance with the terms of the July 2024 Loan Agreement. The total of the original issue discount and other capitalized direct financing fees was approximately $21,200 and will be amortized over the associated term using the straight-line method, which approximates the interest method. The Company utilized the proceeds from the 2024 Notes Offering, along with cash on hand, to prepay $215,000 of borrowings outstanding under the 2021 Credit Facility, as further described below. The 2024 Term Notes were funded by a combination of new and existing lenders. Borrowings from these existing lenders were accounted for as a modification of existing debt. The Company incurred approximately $3,600 of other expenses associated with this transaction that are included within “General and administrative expenses” on the Consolidated Statements of Operations in the Financial Statements for 2024.

The 2024 Term Notes are irrevocably and unconditionally guaranteed, jointly and severally, on a senior secured basis by certain of the Company’s subsidiaries (the “Guarantees”). The 2024 Term Notes and the Guarantees are (i) secured, on a first lien basis, by substantially all assets of the Company and the guarantors of the 2024 Term Notes, subject to certain carveouts, and (ii) issued and governed by the July 2024 Loan Agreement. In addition, subject to certain limitations, the July 2024 Loan Agreement permits the Company to issue additional notes thereunder, including up to an additional $60,000 in aggregate principal in the future, with the proceeds therefrom to be used to prepay the remaining outstanding balance under, and to terminate, the 2021 Credit Facility.

The Company may, at any time and from time to time upon not less than 15 nor more than 60 days’ prior notice, prepay the 2024 Term Notes, along with accrued and unpaid interest, subject to a prepayment premium, as applicable. The July 2024 Loan Agreement requires mandatory prepayments from proceeds of certain events.

Pursuant to the July 2024 Loan Agreement, the Company has agreed to comply with certain customary covenants, including, but not limited to, restrictions on the Company’s ability to: declare or pay dividends or make certain other payments; purchase, redeem, or otherwise purchase or retire for value any equity interests or any subordinated indebtedness or otherwise make any restricted investment or restricted payment; incur certain indebtedness; create certain liens; consolidate, amalgamate, merge, or transfer all or substantially all of the assets of the Company and certain restricted subsidiaries taken as a whole; enter into certain transactions with affiliates; and engage in certain types of businesses. Additionally, the July 2024 Loan Agreement provides for customary events of default which, if certain of them occur, would permit certain parties, including holders of not less than 25% in aggregate principal of the then-outstanding 2024 Term Notes to declare the principal of, and interest or premium, if any, and any other monetary obligations on, all the then-outstanding 2024 Term Notes to be due and payable immediately. The July 2024 Loan Agreement also requires the Company, on a consolidated basis, to maintain liquidity, consisting of cash and/or cash equivalents plus any future revolving credit availability, at all times in an aggregate amount of at least $20,000, with which the Company was in compliance as of December 31, 2024. The Company is required to comply with certain other financial covenants in contemplation of certain transactions or events, such as acquisitions and other financing activities, as defined within and provided for under the July 2024 Loan Agreement.

In January 2025, the July 2024 Loan Agreement was amended to modify certain terms and provisions, including that the minimum liquidity requirement is to be met as of the last day of each calendar month. The amended terms and provisions were not due to actual or anticipated covenant violations. Additionally, the Company borrowed an additional $15,000 through the issuance of additional term notes (the “January 2025 Term Notes”). The January 2025 Term Notes were issued at 97% of face value and are subject to the same terms and provisions of the July 2024 Loan Agreement, including the interest rate and maturity date thereunder.

Refer to Note 11, “Debt,” in the Financial Statements for additional information regarding the July 2024 Loan Agreement and the Company’s other debt transactions.

***Credit Facility***

In August 2021, we entered into a credit agreement with a group of lenders (the "2021 Credit Agreement") that provided for an initial term loan of $210,000, which was borrowed in full. The 2021 Credit Agreement provided for an expansion feature that allowed us to request an increase in the term loan outstanding up to $275,000 if the existing lenders (or other lenders) agreed to provide such additional term loans. During the second quarter of 2022, we borrowed an additional $65,000 of incremental term loans through this expansion feature (the "2022 Loans" and, together with the initial term loan, the "2021 Credit Facility") for total borrowings of $275,000 outstanding thereunder. The 2021 Credit Facility matures on August 27, 2025 and does not require scheduled principal amortization payments. Borrowings under the 2021 Credit Facility bear interest at a rate of 9.5% per annum, payable quarterly. Proceeds from the initial term loan under the 2021 Credit Facility were used, in part, to prepay certain then-outstanding debt obligations and, together with the 2022 Loans, fund working capital and general corporate matters, including, but not limited to, growth investments, acquisitions, capital expenditures, and other strategic initiatives.

Mandatory prepayments are required following certain events, including the proceeds of indebtedness that is not permitted under the agreement, asset sales, and casualty events, subject to customary reinvestment rights. We may prepay the 2021 Credit Facility at any time, subject to a customary make-whole payment or prepayment penalty, as applicable. Once repaid, amounts borrowed under the 2021 Credit Facility may not be re-borrowed. We may request an extension of the maturity date for 364 days, which the lenders' may grant in their discretion.

In April 2024, the 2021 Credit Agreement was amended to permit the Company to initiate, from time to time and at its discretion, a "Dutch Auction" pursuant to which it may issue a tender offer to existing lenders to re-purchase and retire their loans at a specified discount to par. No such re-purchase has occurred as of the date of filing of this Form 10-K.

In June 2024, the 2021 Credit Agreement was amended to, among other things, permit the Company to issue new senior secured notes. In July 2024, the Company prepaid $215,000 of borrowings outstanding under the 2021 Credit Facility, primarily utilizing the proceeds from the issuance of the 2024 Term Notes, as discussed above. The remaining $60,000 of borrowings outstanding under the 2021 Credit Facility will remain outstanding based on the original terms of the 2021 Credit Agreement. The Company recognized, as a component of interest expense, a loss on extinguishment of $5,475, which includes $3,527 of prepayment fees and the write-off of $1,948 of unamortized deferred financing costs that were attributable to those lenders who did not provide funding under the 2024 Term Notes. A total of $1,579 of prepayment fees and $1,428 of previously unamortized deferred financing costs that were associated with existing lenders will remain capitalized and will be deferred over the term of the 2024 Term Notes in accordance with modification treatment. The total prepayment fee of $5,106 is included within "Debt issuance costs" on the Consolidated Statement of Cash Flows in the Financial Statements for 2024. A total of $943 of unamortized deferred financing costs were associated with the portion of the 2021 Credit Facility that was not prepaid and will be amortized through the remaining term of those loans.

We are required to comply with two financial covenants under the 2021 Credit Agreement. Liquidity (defined as unrestricted cash and cash equivalents pledged under the 2021 Credit Facility plus any future revolving credit availability) may not be below $20,000 as of the last day of any fiscal quarter, and we may not permit the ratio of Consolidated EBITDA (as defined in the 2021 Credit Agreement) to consolidated cash interest expense for any period of four consecutive fiscal quarters to be less than 2.50:1.00. The Company has a customary equity cure right for each of these financial covenants. The Company is in compliance with these covenants as of December 31, 2024. Refer to Note 11, "Debt," in the Financial Statements for additional information regarding the 2021 Credit Facility and the Company's other debt transactions.

***Cash Flows***

| (in thousands) | Year Ended December 31, 2024 | 2023 | 2022 |
|---|---|---|---|
| Net cash provided by (used in) operating activities | $ 73,292 | $ 75,334 | $ (38,356) |
| Net cash used in investing activities | (37,196) | (59,890) | (114,254) |
| Net cash (used in) provided by financing activities | (20,350) | (17,082) | 71,275 |

*Operating Activities*

Net cash provided by operating activities was $73,292 during 2024, as compared to $75,334 during 2023. The slight decrease was primarily driven by an impact from the timing and management of payments to suppliers and vendors and other working capital payments, including the payment of approximately $3,600 of expenses associated with our debt refinancing that were not capitalizable and $2,458 of fair value accretion associated with the payment of contingent consideration related to a prior acquisition. During 2024 we received income tax refunds totaling approximately $28,000. Comparatively, 2023 includes the recognition of the $22,794 ERTC Claim, of which $20,830 was received.

Net cash provided by operating activities was $75,334 during 2023, as compared to net cash used in operating activities of $38,356 during 2022. The change was primarily driven by: the timing and amount of income tax payments, the recognition of the $22,794 ERTC Claim, of which $20,830 was received; and the timing of payments to suppliers and vendors and other working capital payments

*Investing Activities*

Net cash used in investing activities decreased by $22,694 during 2024, as compared to 2023. The decrease was primarily due to lower net investments in notes receivable and lower payments associated with acquisitions, partially offset by the absence of proceeds from the sale of assets and slightly higher capital expenditures.

Net cash used in investing activities decreased by $54,364 during 2023, as compared to 2022. The decrease was primarily due to lower capital expenditures, including a benefit from reimbursements under tenant improvement allowances, and lower payments associated with acquisitions, partially offset by lower proceeds from the sale of assets and higher investments in notes receivable.

*Financing Activities*

Net cash used in financing activities increased by $3,268 during 2024, as compared to 2023. The current year reflects utilization of proceeds from the issuance of the 2024 Term Notes to partially prepay certain amounts outstanding under the 2021 Credit Facility and related financing costs. Additionally, the current period reflects higher cash remittances of taxes withheld under equity-based compensation plans, the payment of contingent consideration associated with a prior acquisition, and the repurchase of common stock through a specific transaction. The prior year benefited from proceeds received from the issuance of common stock.

Net cash used in financing activities was $17,082 during 2023, as compared to net cash provided by financing activities of $71,275 during 2022. The change was primarily due to the absence of proceeds from the issuance of debt in 2022 and higher repayments of debt in 2023, partially offset by proceeds from a private placement offering in 2022.

**Contractual Obligations and Other Commitments and Contingencies**

Material contractual obligations arising in the normal course of business primarily consist of long-term fixed rate debt and related interest payments, leases, finance arrangements, and amounts due for acquisitions. We believe 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.

The following table summarizes the Company's material future contractual obligations as of December 31, 2024:

| *(in thousands)* | Commitments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **2025** | **2026 - 2027** | **2028 - 2029** | **Thereafter** |
| Term notes[1] | $ 295,000 | $ 60,000 | $ — | $ 235,000 | $ — |
| Fixed interest related to term notes[2] | 153,629 | 33,613 | 59,926 | 60,090 | — |
| Sellers' notes[3] | 11,060 | 11,060 | — | — | — |
| Finance arrangements[4] | 19,907 | 2,521 | 5,257 | 4,810 | 7,319 |
| Operating leases[5] | 667,888 | 43,401 | 88,657 | 93,159 | 442,671 |
| Finance leases[5] | 3,663 | 1,456 | 1,932 | 275 | — |
| **Total** | $ 1,151,147 | $ 152,051 | $ 155,772 | $ 393,334 | $ 449,990 |

(1) Principal payments due under our term notes payable as of December 31, 2024. This amount could fluctuate based on additional borrowings or prepayments and excludes the additional $15,000 of term notes issued in January 2025. Refer to Note 11, "Debt," in the Financial Statements for additional information regarding our debt arrangements.

(2) Represents fixed interest rate payments on borrowings under our term notes based on the principal outstanding at December 31, 2024. Interest payments could fluctuate based on prepayments or additional amounts borrowed. These amounts exclude interest on the additional $15,000 of term notes issued in January 2025; refer to Note 11, "Debt," in the Financial Statements for additional information regarding our debt arrangements.

(3) Consists of amounts owed for acquisitions or other similar transactions. Certain cash payments include an interest accretion component, and the timing of certain payments may vary based on regulatory approval. Refer to Note 11, "Debt," in the Financial Statements for additional information.

(4) Reflects our contractual obligations to make future payments under non-cancelable operating leases that did not meet the criteria to qualify for sale-leaseback treatment. Refer to Note 10, "Leases," in the Financial Statements for additional information.

(5) Reflects our contractual obligations to make future payments under non-cancelable leases. Refer to Note 10, "Leases," in the Financial Statements for additional information.

The table above excludes up to an additional total of $10,000 related to the Story of PA CR, LLC acquisition that we expect to fund under the associated research collaboration agreement over the ten years following the agreement date. Refer to Note 4, "Acquisitions," in the Financial Statements for additional information.

Additionally, the Company has commercial relationships with license holders across the markets in which it operates with mutually beneficial purchasing and supply arrangements entered into in the ordinary course of business. In conjunction with the acquisition of Ohio Cannabis Clinic, LLC in December 2021, the Company entered into a supply agreement with a producer and supplier of medical cannabis products in Ohio (the "Ohio Supply Agreement") with an initial expiration date of August 2028. Under the Ohio Supply Agreement, the Company will purchase products from the supplier that results in 7.5% of the Company's monthly gross sales of all products in our Ohio dispensaries for the first five years, and 5% for the remaining term. The Company can establish the selling price of the products and the purchases are made at the lowest then-prevailing wholesale market price of products sold by the supplier to other dispensaries in Ohio. Such purchases have been excluded from the table above, as purchases are variable based on gross sales of the respective dispensary.

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

**Capital Expenditures**

We anticipate capital expenditures, net of tenant improvement allowances, of approximately $30,000 to $35,000 during 2025. Changes to this estimate could result from the timing of various project start dates, which are subject to local and regulatory approvals, as well as capital allocation considerations. Spending at our cultivation and processing facilities includes: construction; purchase of capital equipment such as extraction equipment, heating, ventilation, and air conditioning equipment, and other manufacturing equipment; general maintenance; and information technology capital expenditures. Dispensary-related capital expenditures includes construction costs for the initial build-out of each location, general maintenance costs, and upgrades to existing locations.

During 2025, we expect to build out additional dispensaries across our network and provide funding for partner dispensaries. We also anticipate completing certain expansion projects across our cultivation facilities in addition to other enhancements and general maintenance activities across our portfolio. Management expects to fund capital expenditures primarily by utilizing cash flows from operations.

As of December 31, 2024, our construction in progress ("CIP") balance was $5,555 and relates to capital spending on projects that were not yet complete. This balance includes amounts related to: certain enhancement projects at our New Jersey, Illinois, and Massachusetts cultivation facilities; certain build out projects at partner dispensaries; and other projects across our dispensaries and cultivation facilities.

**Share Repurchase Program**

In December 2024, the Company's board of directors authorized a share buyback program (the "Buyback Program") which permits the Company to repurchase up to the lesser of: (i) 10,216 shares of the Company's Class A common stock; and (ii) $2,250 worth of shares of Class A common stock, in the open market pursuant to a normal course issuer bid, subject to applicable legal, regulatory, and contractual requirements. The total number of shares purchased, timing of purchases, and share prices are dependent upon market conditions and business considerations, any applicable securities law requirements, CSE rules, and any determination of best use of cash available at the time. Any such shares purchased will be retired. The Buyback Program will expire on January 1, 2026, and may be suspended, terminated, or modified at any time for any reason and the Company is under no obligation to purchase any such shares for the duration of the Buyback Program. Repurchases under the Buyback Program commenced in February 2025, at the discretion of the Company's management. Refer to Note 12, "Stockholders' Equity," in the Financial Statements for additional information regarding the Company's capital structure and other equity-related transactions.

**Other Matters**

***Equity Incentive Plan*s**

The Company's current stock incentive plan, as amended, (the "Amended 2021 Plan") authorizes the issuance of options, stock appreciation rights, restricted stock awards, restricted stock units ("RSUs"), and other stock-based awards (collectively the "2021 Plan Awards"). The Amended 2021 Plan provides for a maximum number of shares of Class A common stock available for issuance to not exceed 10% of the total number of issued and outstanding shares of Class A common stock, on a non-diluted basis, as constituted on the grant date of a plan award. As of December 31, 2024, there were 11,347 shares of Class A common stock available for grant for future equity-based compensation awards under the Amended 2021 Plan.

During 2024, the Company granted a total of 14,603 RSUs under the Amended 2021 Plan, and as of December 31, 2024, a total of 5,898 RSUs that are granted are unvested. Total unrecognized compensation cost related to the RSUs was $4,936 as of December 31, 2024, which is expected to be recognized over a weighted-average remaining period of 2.6 years.

As of December 31, 2024, a total of 3,252 stock option awards are outstanding under the Amended 2021 Plan, of which 2,702 are exercisable. No options were granted during 2024 and a total of 206 were exercised. As of December 31, 2024, the outstanding options have a remaining weighted-average contractual life of 3.0 years and total unrecognized stock-based compensation expense related to unvested options was $250, which is expected to be recognized over a weighted-average remaining period of 1.9 years.

During 2024, 2023, and 2022, the Company recognized $10,821, $11,833, and $11,368, respectively, of equity-based compensation expense within "General and administrative expenses" on the Consolidated Statements of Operations in the Financial Statements and recognized $7,659, $6,511, and $11,889, respectively, within "Cost of goods sold."

In July 2021, the Company adopted an employee stock purchase plan (the "2021 ESPP"), pursuant to which 4,000 shares of Class A common stock are reserved for issuance thereunder, subject to certain adjustments and other terms. As of December 31, 2024, no shares have been issued under the 2021 ESPP.

Refer to Note 13, "Equity-Based Compensation Expense," in the Financial Statements for additional information regarding the Company's equity awards and equity-based compensation expense.

***Other Equity Transactions***

In December 2024, the Company completed a non-brokered private transaction with a single investor through which it repurchased and retired 11,000 shares of Class A common stock for an aggregate of $2,750, which shares represented approximately 5% of the then-outstanding shares of Class A common stock.

***Lease-Related Transactions***

Refer to Note 10, "Leases," in the Financial Statements for additional information regarding the Company's leases.

***Loan Receivable***

In June 2023, the Company purchased, at par, $12,027 of the principal of a loan (the "Maryland Loan Receivable"), outstanding pursuant to a loan agreement with a cannabis license holder in Maryland (the "Maryland Loan Agreement"), plus the associated interest receivable. The Maryland Loan Agreement matures on August 1, 2026, requires monthly repayments equal to 10.0% of the outstanding balance, including paid-in-kind ("PIK") interest, and may be prepaid subject to a customary make-whole payment or prepayment penalty, as applicable. The Maryland Loan Agreement initially provided for a base interest rate of 12.0% plus LIBOR (LIBOR floor of 1.0%) and a PIK interest rate of 4.5%. Following the replacement of LIBOR, effective July 1, 2023, the interest rate transitioned from LIBOR to the secured overnight financing rate ("SOFR") plus an alternative reference rate committee ("ARRC") standard adjustment.

The Company recorded the Maryland Loan Receivable at an amortized cost basis of $12,622, which included a total of $595 of transaction-related expenses. The Company identified certain events of default and covenant violations, including non-payment, and provided an acceleration notice during the second quarter of 2023 that declared all amounts due and payable. As such, during 2023 the Company established a reserve of $1,804 for potential collectability that is included within "General and administrative expenses" on the Consolidated Statements of Operations in the Financial Statements and within "Other" on the Consolidated Statements of Cash Flows. During 2023, the Company recognized a total $2,859 of interest income, including certain default fees and premiums and PIK interest, which total remained outstanding as of December 31, 2023 and is recorded within "Other, net" on the Consolidated Statements of Operations and which receivable is included within "Other current assets" on the Consolidated Balance Sheet as of that date.

In March 2024 the borrower refinanced the borrowings underlying the Maryland Loan Agreement with a third-party lender (the "Maryland Refinancing"). In conjunction with the Maryland Refinancing, the borrower's obligations to the Company under the Maryland Loan Agreement were settled. As part of this settlement, the Company received a cash payment of $8,100. Additionally, the parties entered into a supply agreement that provides for the Company to receive $6,000 of inventory products from the borrower, based on market prices, over the course of three years, with a maximum of $500 per quarter. The Company recorded this receivable net of an initial discount of $984 that is included within "General and administrative expenses" on the Consolidated Statements of Operations for 2024 and within "Other" on the Consolidated Statements of Cash Flows. This discount was calculated utilizing the Company's estimated incremental borrowing rate as of the agreement date and will be accreted to interest income over the agreement term. The total settlement value, excluding the discount, approximated the obligations outstanding under the Maryland Loan Receivable, including past due interest.

A total of $988 of inventory was supplied under this agreement during 2024. The Company established a reserve of $2,083 on the remaining receivable during 2024 due to collection risk. This reserve was recognized within "General and administrative expenses" on the Consolidated Statements of Operations and within "Other" on the Consolidated Statements of Cash Flows.

Refer to Note 6, "Notes Receivable," in the Financial Statements for additional information regarding the Maryland Loan Receivable and the Company's other notes receivable.

**Legal Matters**

Below is a description of our significant legal matters and the related impact, as applicable, on our financial condition, results of operations, and prospects. Refer to Note 15, "Commitments and Contingencies," in the Financial Statements for additional information.

***MedMen NY Litigation***

On February 25, 2021, the Company entered into a definitive investment agreement (the "Investment Agreement") with subsidiaries of MedMen Enterprises Inc. ("MedMen"), under which we would have, subject to regulatory approval, completed an investment (the "Investment") of approximately $73,000 in MedMen NY, Inc. ("MMNY"), a licensed medical cannabis operator in the state of New York. Following the completion of the transactions contemplated by the Investment Agreement, we were expected to hold all the outstanding equity of MMNY.

The Company contends that, in December 2021, the parties to the Investment Agreement received the required approvals from the State of New York to close the transactions contemplated by the Investment Agreement, but MedMen has disputed the adequacy of the approvals provided by the State of New York. The Company delivered notice to MedMen in December 2021 that it wished to close the transactions as required by the Investment Agreement. Nevertheless, MedMen, on January 2, 2022, gave notice to the Company that MedMen purported to terminate the Investment Agreement.

Following receipt of such notice, on January 13, 2022, the Company filed a complaint against MedMen and others in the Commercial Division of the Supreme Court of the State of New York (the "Court"), requesting specific performance that the transactions contemplated by the Investment Agreement must move forward, and such other relief as the Court may deem appropriate. The Company simultaneously moved for a temporary restraining order and preliminary injunction (the "Motion") requiring MedMen to operate its New York business in the ordinary course of business and to refrain from any activities or transactions that might impair, encumber, or dissipate MedMen's New York assets. The parties resolved the Motion via a "Stipulation and Order" entered by the Court on January 21, 2022 that required that MMNY operate only in compliance with the law and in a manner consistent with its ordinary course of business that preserved all assets of MMNY. It further required MMNY to not take certain actions, including any actions that would have a material adverse effect on MedMen's New York business. On March 27, 2023, the parties entered a further stipulation that modified the January 21, 2022 Stipulation and Order by lifting the Court's prohibition against a sale or transfer of MMNY or its assets, without waiver of any claims that the Company might have in the event of such a transaction. That further stipulation modifying the January 21, 2022 Stipulation and Order was entered by the Court on August 1, 2023.

On January 24, 2022, MedMen filed counterclaims against the Company, alleging that Ascend had breached the Investment Agreement, and seeking declaratory relief that MedMen had properly terminated the Investment Agreement. On February 14, 2022, the Company moved to dismiss MedMen's counterclaims and filed an amended complaint (the "First Amended Complaint") that included additional claims against MedMen for breach of contract.

The First Amended Complaint contained several causes of action, including for breach of contract and breach of the covenant of good faith and fair dealing. The First Amended Complaint sought damages in addition to continuing to seek injunctive and declaratory relief. On March 7, 2022, MedMen filed amended counterclaims, an answer, and affirmative defenses to the First Amended Complaint. On March 28, 2022, the Company moved to dismiss MedMen's amended counterclaims. On April 20, 2022, the parties entered into a stipulation extending the time for MedMen to oppose the Company's motion to dismiss until May 5, 2022. In addition, the parties agreed to stay all discovery, including both party and non-party discovery. On May 5, 2022, the parties filed another stipulation order with the Court adjourning until further notice from the Court MedMen's time to oppose the Company's motion to dismiss MedMen's amended counterclaims. The parties again stipulated that all discovery remains stayed pending further order from the Court.

On May 10, 2022, the Company and MedMen signed a term sheet (the "Term Sheet"), pursuant to which the parties agreed to use best efforts to enter into a settlement agreement and enter into new or amended transactional documents. The amended transaction terms contemplated in the Term Sheet also would have required MedMen to provide a representation and warranty that the status of the MMNY assets had not materially changed since December 31, 2021 and an acknowledgement that the representations and warranties from the Investment Agreement would survive for three months after the closing of the contemplated transactions. However, after the Company determined that MedMen could not make or provide the representations and warranties that MedMen would have been required to make as part of the contemplated transactions, the Company determined that it no longer intended to consummate the contemplated transactions.

On September 30, 2022, the Company sought leave from the Court to file a second amended complaint (the "Second Amended Complaint"). The Second Amended Complaint contains breach of contract claims against MedMen, as well as a claim for the breach of the implied covenant of good faith and fair dealing, and a claim for anticipatory breach of contract. In connection with those claims, the Company is no longer seeking injunctive or declaratory relief; however, the Company continues to seek damages from MedMen, including, but not limited to, the return of the $4,000 deposit, approximately $2,400 pursuant to a working capital loan agreement that was entered into in conjunction with the Investment Agreement, and other capital expenditure advances paid to MMNY by the Company.

On November 21, 2022, the parties entered into a stipulation whereby MedMen agreed to the filing of the Second Amended Complaint, which is now the Company's operative pleading in the litigation. In addition, in the stipulation, the Company agreed that it would not contest MedMen's filing of second amended counterclaims against the Company while reserving all rights with respect to any such counterclaims. Because the parties agreed to the filing of each side's amended pleadings, on November 28, 2022, the Court determined that Ascend's March 2022 motion to dismiss was moot.

On December 21, 2022, MedMen filed its second amended counterclaims, an answer, and affirmative defenses to the Company's Second Amended Complaint. In addition to the allegations in MedMen's earlier pleadings, MedMen now also alleged that the Company breached the Term Sheet. On January 20, 2023, the Company moved to dismiss MedMen's second amended counterclaims.

On August 18, 2023, the Court issued a Decision and Order on the Company's motion to dismiss, dismissing seven of MedMen's ten counterclaims, including each of the counterclaims brought by MedMen relating to the Term Sheet. On September 26, 2023, MedMen filed a motion seeking leave to file its third amended counterclaims, in which MedMen seeks to revive its previously dismissed counterclaims relating to the Term Sheet. On October 24, 2023, the Company filed an opposition to that motion for leave. As further discussed below, the Court denied that motion on February 2, 2024. In addition, on October 18, 2023, MedMen filed a Notice of Appeal of the Court's August 18, 2023 Decision and Order with respect to the dismissal of MedMen's three counterclaims relating to the Term Sheet. On November 1, 2023 the Company filed a Notice of Cross-Appeal with respect to the Court's determination that the Company's motion to dismiss was not subject to New York's anti-SLAPP statute. Both parties have yet to perfect the appeals.

On February 2, 2024, the Court issued a Decision and Order denying MedMen's motion for leave to file its third amended counterclaims.

On February 21, 2024, the current counsel-of-record for MedMen filed an order to show cause with the Court seeking leave to withdraw as counsel and stay proceedings for thirty days to permit MedMen time to obtain new counsel. On March 20, 2024, the Court granted such withdrawal motion and designated April 25, 2024 as the deadline for MedMen to obtain new counsel, which, as of the date of filing of this Form 10-K, has not occurred.

On April 26, 2024, MedMen announced that it made an assignment into bankruptcy pursuant to Canada's Bankruptcy and Insolvency Act on April 24, 2024 and B. Riley Farber Inc. was appointed as its bankruptcy trustee. In addition, MedMen announced that MedMen's wholly owned subsidiary, MM CAN USA, Inc., a California corporation, was placed into receivership in the Los Angeles Superior Court, Santa Monica Division on April 23, 2024 to effectuate an orderly dissolution and liquidation of its California-based assets. MedMen further announced that it intends to initiate additional receivership proceedings in those U.S. states where MM CAN USA, Inc. controls or owns assets, through which the operations and assets of MedMen's subsidiaries will be dissolved or liquidated pursuant to applicable laws in the United States. On May 21, 2024, the Los Angeles Superior Court issued an order confirming the appointment a receiver for MM CAN USA, Inc. The receiver has submitted monthly reports to the Los Angeles Superior Court estimating that the liabilities of MedMen's subsidiaries likely significantly exceed the estimated liquidated value of MedMen's subsidiaries and their respective assets, and such reports indicate that efforts to dissolve, liquidate, or abandon such assets are ongoing.

Following the Company's decision to no longer consummate the contemplated transactions during 2022, the Company expensed a total of $1,704 of capitalized costs, primarily consisting of capital expenditures or deposits that were incurred for certain locations. Additionally, during 2022 the Company established an estimated reserve of $3,700 related to amounts that it has been actively pursuing collecting. The write-off and reserve are each included within "General and administrative expenses" on the Consolidated Statements of Operations in the Financial Statements and within "Other" on the Consolidated Statements of Cash Flows for 2022 and the reserve is included within "Other current assets" on the Consolidated Balance Sheet as of December 31, 2023. During 2024, the Company increased the estimated reserve by $5,447, which is included within "General and administrative expenses" on the Consolidated Statements of Operations and within "Other" on the Consolidated Statements of Cash Flows. The total reserve as of December 31, 2024 is reflective of all outstanding balances and, of which, $2,422 is included within "Notes receivable" on the Consolidated Balance Sheet, $6,695 is included within "Other current assets," and the remainder is included within "Other non-current assets."

***Previous Matters***

<u>TVP Settlement</u>

In April 2021, the Company, through a subsidiary, entered into a settlement agreement with TVP, LLC, TVP Grand Rapids, LLC and, TVP Alma, LLC (collectively, the “TVP Parties”) regarding a dispute related to a purchase agreement for the Company’s potential acquisition of certain real estate properties in Michigan. As part of that settlement, the Company issued historical equity units to the TVP Parties to be held in the name of an escrow agent (the “Escrow Units”). The Escrow units were fully issued and outstanding as of the settlement date and were to remain in the escrow account until such time as the TVP Parties exercised an option to hold the Escrow Units directly (the “Put Option”), which could be exercised for three years. In February 2024, the TVP Parties notified the Company that they were exercising the Put Option and the transfer was completed in May 2024, at which time the Escrow Units were released to the TVP Parties and the TVP Parties transferred to the Company the equity interests of the entities that hold the three real estate properties. The underlying properties were determined to have a total fair value of $5,400 as of the settlement date, which was included within “Other non-current assets” on the Consolidated Balance Sheet as of December 31, 2023 and was reclassified to “Property and equipment, net” as of the transfer date. Prior to the completion of the transfer, the Company operated dispensaries at these locations pursuant to lease agreements, which operations will continue at the now-owned properties.

<u>Stockholder Dispute</u>

In April 2022, the Company entered into a settlement agreement related to a stockholder dispute that arose in 2021. The settlement total of $5,000 is reflected within “Settlement expense” on the Consolidated Statement of Operations in the Financial Statements for 2022 and was paid in May 2022.

**Subsequent Transactions**

In January 2025, the Illinois Partnership entered into a definitive agreement to acquire a conditional adult-use license in Illinois, subject to regulatory approval. Total cash consideration for this transaction is $1,900, which is due at final closing and is subject to certain closing adjustments. In conjunction with this definitive agreement, the parties entered into certain management services agreements under which the Illinois Partnership will, subject to regulatory approval, provide certain management and advisory services for a set fee. The parties also entered into a working capital loan and security agreement, under which the Illinois Partnership may loan up to $3,650 for the build-out of the associated dispensary, which loan has a five year maturity, if not otherwise settled, bears interest at a rate of 12.5% per annum, and provides for a default interest penalty of an additional 6.0% and a repayment fee of 10.0%. The Company is evaluating the accounting treatment of this transaction to determine if it meets the criteria for consolidation.

In January 2025, the Illinois Partnership entered into definitive agreements to acquire an adult-use dispensary and a conditional adult-use license in Illinois, subject to regulatory approval. The parties also entered into certain management services agreements under which the Illinois Partnership will, subject to regulatory approval, provide certain management and advisory services for a set fee. Total cash consideration for these transactions is $5,000, of which $2,500 is payable upon the regulatory approval of the management services agreements and the remainder is due at final closing, subject to certain closing adjustments. The agreements also provide for an earnout payment based on the achievement of certain financial metrics. The Company is evaluating the accounting treatment of this transaction to determine if it meets the criteria for consolidation.

In February 2025, the Company entered into a loan agreement pursuant to which the Company may provide up to $2,500 of financing (the "February 2025 NJ Loan Agreement") to a third party ("New Jersey Partnership Two"). Borrowings under the February 2025 NJ Loan Agreement are secured by substantially all of the assets and equity interests of the borrower and borrowings bear interest at a rate of 20% per annum. The February 2025 NJ Loan Agreement provides for customary events of default, contains certain covenants and other restrictions, and provides for a default penalty of an additional 6% interest. Borrowings are due on the tenth anniversary of the February 2025 NJ Loan Agreement. The February 2025 NJ Loan Agreement provides the Company with conversion options to obtain to 100% of the equity interests in the borrower at any time through the maturity date, subject to certain provisions and as may be permitted by applicable regulations. The February 2025 NJ Loan Agreement also provides the Company with certain financial distributions based on the borrower's results of operations. In conjunction with the February 2025 NJ Loan Agreement, the Company and the New Jersey Partnership Two entered into a purchase agreement to acquire an entity that received licensing approvals for operation of an adult-use dispensary, subject to regulatory approval, for $650 of cash consideration. The Company is evaluating the accounting treatment of this transaction to determine if it meets the criteria for consolidation.

In February 2025, pursuant to a loan agreement through which the Company may provide funding (the "February 2025 Loan Agreement"), at its sole discretion to a third party, this third party entered into a definitive agreement through which it anticipates acquiring, subject to certain regulatory approvals and closing conditions, two adult-use dispensaries for total consideration of $7,850, payable in cash and subject to certain closing adjustments including the settlement of a note outstanding. This transaction also provides for an earnout payment, payable in cash, in an amount equal to the lesser of $2,000 or three times the Annual EBITDA (as defined) during the one-year period following closing. The February 2025 Loan Agreement provides the Company with the option to convert the outstanding balance into equity interests of the borrower, up to 100%, as may be permissible by applicable regulations at such time. Borrowings under the February 2025 Loan Agreement bear interest at a rate of 20.0% per annum and are secured by substantially all of the then-current or future assets of the borrower, as applicable. The February 2025 Loan Agreement matures ten years from issuance, but may be extended if not otherwise converted prior to maturity, with borrowings and interest not due until such time. This third party held no assets at the time the agreements were entered into. The Company is evaluating the accounting treatment of these transactions.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of consolidated financial statements in accordance with United Stated generally accepted accounting principles requires our management to make certain estimates that affect the reported amounts. We base our estimates on historical experience, known or expected trends, independent valuations, and carious other assumptions that we believe to be reasonable under the circumstances. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

The Company's significant accounting policies are described in Note 2, "Basis of Presentation and Significant Accounting Policies," in the Financial Statements, including standards adopted during the current year, none of which had a material impact on our consolidated financial statements. There have been no other significant changes to our critical accounting policies and estimates. We believe the following critical accounting policies govern the more significant judgments and estimates used in the preparation of our consolidated financial statements.

**Acquisitions**

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.

In determining the fair value of all identifiable assets and liabilities acquired, the most significant estimates relate to intangible assets. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows.

Cannabis licenses are the primary intangible asset acquired in business combinations, as they provide us the ability to operate in each market. The key assumptions used in calculating the fair value of these intangible assets are cash flow projections that include discount rates and terminal growth rates. In calculating the fair value of the cannabis licenses acquired through business combinations during 2024 and 2023, management selected discount rates that vary depending upon the markets in which each of the acquisitions operate in, generally ranging between 15% and 30%. The terminal growth rate represents the rate at which these businesses will continue to grow into perpetuity. Management selected a terminal growth rate of 3%. Other significant assumptions include revenue, gross profit, operating expenses and anticipated capital expenditures which are based upon the Company's historical operations along with management projections. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets. Unanticipated events and circumstances may occur that could affect the accuracy or validity of such assumptions, estimates, or actual results.

**Goodwill, Intangible Assets, and Other Long-Lived Assets**

Goodwill and intangible assets are recorded at their estimated fair values at the date of acquisition. We review goodwill for impairment annually during the fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value may not be recoverable. Accounting Standards Codification Topic 350, "Intangibles – Goodwill and Other" ("ASC 350") permits the assessment of qualitative factors to determine whether events and circumstances lead to the conclusion that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, which would require a quantitative impairment test. Otherwise, no further testing is required.

Our qualitative assessment of the recoverability of goodwill considers various macroeconomic, industry-specific, and company-specific factors. These factors include: (i) severe adverse industry or economic trends; (ii) significant company-specific actions, including exiting an activity in conjunction with restructuring of operations; (iii) current, historical or projected deterioration of our financial performance; or (iv) a sustained decrease in our market capitalization below our net book value. After assessing the totality of events and circumstances, if we determine that it is not more likely than not that the fair value of any of our reporting units is less than its carrying amount, no further assessment is performed. If we determine that it is more likely than not that the fair value of any of our reporting units is less than its carrying amount, we calculate the fair value of that reporting unit and compare the fair value to the reporting unit's net book value.

If required, the quantitative test involves a comparison of the estimated fair value of a reporting unit to its carrying amount. The fair value of a reporting unit is determined using a combination of the income approach and the market approach. The income approach incorporates the use of a discounted cash flow method in which the estimated future cash flows and terminal value are calculated for each reporting unit and then discounted to present value using an appropriate discount rate. The market approach estimates fair value of a reporting unit by using market comparables for reasonably similar public companies. When applying valuation techniques, the Company relies on a number of factors, including historical results, business plans, forecasts, and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired. If the carrying amount of a reporting unit exceeds its estimated fair value, then an impairment charge is recorded for the amount by which the carrying amount exceeds the reporting unit's fair value, up to a maximum amount of the goodwill balance for the reporting unit.

During the fourth quarter of 2024, 2023, and 2022, we performed our annual impairment review of goodwill using a qualitative approach for our two goodwill reporting units and determined that it was not more likely than not that there was impairment of goodwill. As such, no impairment on goodwill was recognized during 2024, 2023, or 2022.

We evaluate amortizable finite-intangible assets and other long-lived assets, such as property, plant and equipment, for potential impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. If an indicator of impairment exists, judgment is required in considering the facts and circumstances surrounding these long-lived assets and assumptions are required to estimate future cash flows used in assessing the recoverable amount of the long-lived asset. Useful lives are reviewed annually. During 2024, 2023, and 2022, we did not note any factors resulting in impairment charges or changes to useful lives for finite-lived intangible assets or other long-lived assets.

**Inventories**

The net realizable value of inventories represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. 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 we expect to realize by selling the inventory, and the contractual arrangements with customers. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecasts and net realizable value. The estimates are judgmental in nature and are made at a point in time, using available information, expected business plans, and expected market conditions. As a result, the actual amount received on sale could differ from the estimated value of inventory. Periodic reviews are performed on the inventory balance. The impact of changes in inventory reserves is reflected as cost of goods sold.

**Leases**

For leases other than short-term leases (those with an initial term of twelve months or less), we recognize ROU assets and lease liabilities on the Consolidated Balance Sheets. Operating lease liabilities are initially recognized based on the net present value of the fixed portion of our lease payments from lease commencement through the lease term. To calculate the net present value, we apply an incremental borrowing rate that is estimated as the rate of interest we would pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term. We use quoted interest rates as an input to derive our incremental borrowing rate as the discount rate for the lease. We recognize ROU assets based on operating lease liabilities reduced by lease incentives, including tenant improvement allowances. We assess ROU assets for impairment in the same manner as long-lived assets.

**Consolidation**

Judgment is applied in assessing whether we exercise control and have significant influence over entities in which we directly or indirectly have an interest. We have control when we have the power over the subsidiary, have exposure or rights to variable returns, and have the ability to use our power to affect the returns. Significant influence is defined as the power to participate in the financial and operating decisions of the subsidiaries. Where we are determined to have control, these entities are consolidated, generally as variable interest entities. Additionally, judgment is applied in determining the effective date on which control was obtained.

**Recently Adopted Accounting Standards and Recently Issued Accounting Pronouncements**

For information about our recently adopted accounting standards and recently issued accounting standards not yet adopted, see Note 2, "Basis of Presentation and Significant Accounting Policies," in the Financial Statements.

**REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS**

In accordance with the Canadian Securities Administration Staff Notice 51-352, information regarding the current federal and state-level United States regulatory regimes in those jurisdictions where we are currently directly and indirectly involved in the cannabis industry, through our subsidiaries and investments, is further described in the subsections "Overview of Government Regulation," "Compliance with Applicable State Laws in the United States," and "State Regulation of Cannabis," under Item 1., "Business," of this Annual Report.