



Ayr Wellness Inc.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023

(EXPRESSED IN UNITED STATES DOLLARS)

Ayr Wellness Inc.
UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2024 AND 2023

Unaudited Interim Condensed Consolidated Financial Statements (“Interim Financial Statements”)

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Ayr Wellness Inc.
Unaudited Interim Condensed Consolidated Balance Sheets
(Expressed in United States Dollars, in thousands, except share amounts)

	<i>As of</i>	
	March 31, 2024	December 31, 2023
ASSETS		
Current		
Cash, cash equivalents and restricted cash	\$ 71,199	\$ 50,786
Accounts receivable, net	14,671	13,491
Inventory	113,518	106,363
Prepaid expenses, deposits, and other current assets	14,493	22,600
<i>Total Current Assets</i>	<u>213,881</u>	<u>193,220</u>
Non-current		
Property, plant, and equipment, net	313,871	310,615
Intangible assets, net	673,229	687,988
Right-of-use assets - operating, net	131,911	127,024
Right-of-use assets - finance, net	39,895	40,671
Goodwill	94,108	94,108
Deposits and other assets	6,313	6,229
TOTAL ASSETS	<u>\$ 1,473,208</u>	<u>\$ 1,459,855</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current		
Trade payables	25,331	24,786
Accrued liabilities	29,305	40,918
Lease liabilities - operating - current portion	10,210	9,776
Lease liabilities - finance - current portion	9,190	9,789
Income tax payable	13,419	90,074
Debts payable - current portion	20,189	23,152
Accrued interest payable - current portion	7,585	1,983
<i>Total Current Liabilities</i>	<u>115,229</u>	<u>200,478</u>
Non-current		
Deferred tax liabilities, net	64,965	64,965
Uncertain tax position liabilities	87,653	-
Lease liabilities - operating - non-current portion	130,581	125,739
Lease liabilities - finance - non-current portion	17,049	18,007
Construction finance liabilities	39,177	38,205
Debts payable - non-current portion	172,499	167,351
Senior secured notes, net of debt issuance costs	208,581	243,955
Accrued interest payable - non-current portion	5,632	5,530
Other long-term liabilities	24,971	24,973
TOTAL LIABILITIES	<u>866,337</u>	<u>889,203</u>
Commitments and contingencies		
Shareholders' equity		
Multiple Voting Shares - no par value, unlimited authorized. Issued and outstanding - 3,696,486 shares	-	-
Subordinate, Restricted, and Limited Voting Shares - no par value, unlimited authorized. Issued and outstanding - 101,468,851 and 64,574,077 shares, respectively	-	-
Exchangeable Shares: no par value, unlimited authorized. Issued and outstanding - 9,525,789 and 9,645,016 shares, respectively	-	-
Additional paid-in capital	1,515,155	1,370,600
Treasury stock - 645,298 and 645,300 shares, respectively	(8,987)	(8,987)
Accumulated other comprehensive income	3,266	3,266
Accumulated deficit	(889,176)	(783,101)
Equity of Ayr Wellness Inc.	<u>620,258</u>	<u>581,778</u>
Noncontrolling interest	(13,387)	(11,126)
TOTAL SHAREHOLDERS' EQUITY	<u>606,871</u>	<u>570,652</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,473,208</u>	<u>\$ 1,459,855</u>

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

Ayr Wellness Inc.

Unaudited Interim Condensed Consolidated Statements of Operations

(Expressed in United States Dollars, in thousands, except per share amounts)

	<i>Three Months Ended</i>	
	March 31, 2024	March 31, 2023
Revenues, net of discounts	\$ 118,040	\$ 117,665
Cost of goods sold	67,377	69,383
Gross profit	<u>50,663</u>	<u>48,282</u>
Operating expenses		
Selling, general, and administrative	39,232	52,050
Depreciation and amortization	12,074	15,614
Acquisition and transaction costs	1,324	2,241
(Gain) loss on sale of assets	(4)	58
Total operating expenses	<u>52,626</u>	<u>69,963</u>
Loss from continuing operations	<u>(1,963)</u>	<u>(21,681)</u>
Other income (expense), net		
Fair value gain on financial liabilities	-	27,597
Loss on the extinguishment of debt	(79,172)	-
Interest expense, net	(17,620)	(7,565)
Interest income	103	165
Other income, net	1,800	279
Total other (expense) income, net	<u>(94,889)</u>	<u>20,476</u>
Loss from continuing operations before income taxes and noncontrolling interest	<u>(96,852)</u>	<u>(1,205)</u>
Income taxes		
Current tax provision	(11,484)	(11,178)
Total income taxes	<u>(11,484)</u>	<u>(11,178)</u>
Net loss from continuing operations	<u>(108,336)</u>	<u>(12,383)</u>
Discontinued operations		
Loss from discontinued operations, net of taxes (including loss on disposal of \$180,753 for the three months ended March 31, 2023)	-	(185,245)
Loss from discontinued operations	<u>-</u>	<u>(185,245)</u>
Net loss	<u>(108,336)</u>	<u>(197,628)</u>
Net loss attributable to noncontrolling interests	(2,261)	(3,025)
Net loss attributable to Ayr Wellness Inc.	<u>\$ (106,075)</u>	<u>\$ (194,603)</u>
Basic and diluted net loss per share		
Continuing operations	\$ (1.08)	\$ (0.13)
Discontinued operations	-	(2.65)
Total (basic and diluted) net loss per share	<u>\$ (1.08)</u>	<u>\$ (2.78)</u>
Weighted average number of shares outstanding (basic and diluted)	<u>97,884</u>	<u>70,008</u>

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

Ayr Wellness Inc.

Unaudited Interim Condensed Consolidated Statements of Shareholders' Equity

(Expressed in United States Dollars, in thousands)

	Multiple	Subordinate, Restricted, and Limited	Exchangeable	Additional paid-in capital	Treasury stock		Accumulated other comprehensive income	Accumulated Deficit	Noncontrolling interest	Total
	Voting Shares	Voting Shares Number			Shares	#				
	#	#	#	\$	#	\$	\$	\$	\$	\$
Balance, December 31, 2022	3,696	60,909	6,044	1,349,713	(645)	(8,987)	3,266	(510,668)	2,000	835,324
Stock-based compensation	-	56	-	4,264	-	-	-	-	-	4,264
Tax withholding on stock-based compensation awards	-	(15)	-	(29)	-	-	-	-	-	(29)
Conversion of Exchangeable Shares	-	364	(364)	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	(194,603)	(3,025)	(197,628)
Balance, March 31, 2023	3,696	61,314	5,680	1,353,948	(645)	(8,987)	3,266	(705,271)	(1,025)	641,931
	Multiple	Subordinate, Restricted, and Limited	Exchangeable	Additional paid-in capital	Treasury stock		Accumulated other comprehensive income	Accumulated Deficit	Noncontrolling interest	Total
	Voting Shares	Voting Shares Number			Shares	#				
	#	#	#	\$	#	\$	\$	\$	\$	\$
Balance, December 31, 2023	3,696	64,574	9,645	1,370,600	(645)	(8,987)	3,266	(783,101)	(11,126)	570,652
Stock-based compensation	-	1,778	-	3,465	-	-	-	-	-	3,465
Tax withholding on stock-based compensation awards	-	(1)	-	(283)	-	-	-	-	-	(283)
Conversion of Exchangeable Shares	-	119	(119)	-	-	-	-	-	-	-
Shares issued in connection with debt extinguishment	-	34,988	-	94,302	-	-	-	-	-	94,302
Warrants issued in connection with debt extinguishment	-	-	-	47,049	-	-	-	-	-	47,049
Warrants exercised	-	11	-	22	-	-	-	-	-	22
Net loss	-	-	-	-	-	-	-	(106,075)	(2,261)	(108,336)
Balance, March 31, 2024	3,696	101,469	9,526	1,515,155	(645)	(8,987)	3,266	(889,176)	(13,387)	606,871

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

Ayr Wellness Inc.

Unaudited Interim Condensed Consolidated Statements of Cash Flows

(Expressed in United States Dollars, in thousands)

	<i>Three Months Ended</i>	
	March 31, 2024	March 31, 2023
Operating activities		
Consolidated net loss	\$ (108,336)	\$ (197,628)
Less: Loss from discontinued operations	-	(4,492)
Net loss from continuing operations before noncontrolling interest	(108,336)	(193,136)
Adjustments for:		
Fair value gain on financial liabilities	-	(27,597)
Stock-based compensation	3,465	5,584
Depreciation and amortization	7,345	10,701
Amortization of intangible assets	14,818	14,336
Amortization of financing costs	3,948	573
Amortization of financing discount	1,399	-
Amortization of financing premium	(152)	(754)
Provision for credit losses	259	-
(Gain) loss on sale of assets	(4)	58
Loss on the extinguishment of debt	79,172	-
Loss on the disposal of Arizona business	-	180,753
Changes in operating assets and liabilities:		
Accounts receivable	(1,438)	(2,087)
Inventory	(7,156)	3,257
Prepaid expenses, deposits, and other current assets	(1,145)	1,204
Trade payables	938	(6,171)
Accrued liabilities	(1,522)	5,640
Accrued interest payable	5,703	5,053
Lease liabilities - operating	388	640
Income tax payable	(76,655)	10,581
Uncertain tax position liabilities	87,653	-
Cash provided by continuing operations	8,680	8,635
Cash provided by discontinued operations	-	1,621
Cash provided by operating activities	8,680	10,256
Investing activities		
Purchase of property, plant, and equipment	(6,822)	(7,187)
Capitalized interest	(1,461)	(3,589)
Proceeds from the sale of assets	40	-
Cash paid for business combinations and asset acquisitions, working capital	-	(2,600)
Cash used in investing activities from continuing operations	(8,243)	(13,376)
Proceeds from sale of Arizona - discontinued operation	-	18,084
Cash used in investing activities of discontinued operations	-	(44)
Cash (used in) provided by investing activities	(8,243)	4,664
Financing activities		
Proceeds from exercise of warrants	22	-
Proceeds from notes payable	40,000	10,000
Proceeds from financing transaction, net of financing costs	8,309	-
Debt issuance costs paid	(9,096)	-
Payment for settlement of contingent consideration	(10,094)	-
Tax withholding on stock-based compensation awards	(283)	(29)
Repayments of debts payable	(6,247)	(6,546)
Repayments of lease liabilities - finance (principal portion)	(2,615)	(2,378)
Cash provided by financing activities by continuing operations	19,996	1,047
Cash used in financing activities from discontinued operations	-	(123)
Cash provided by financing activities	19,996	924
Net increase in cash and cash equivalents and restricted cash	20,433	15,844
Cash, cash equivalents and restricted cash at beginning of the period	50,766	76,827
Cash included in assets held-for-sale	-	3,813
Cash, cash equivalents and restricted cash at end of the period	\$ 71,199	\$ 96,484
Supplemental disclosure of cash flow information:		
Interest paid during the period, net	\$ 8,096	\$ 5,311
Income taxes paid during the period	486	908

Non-cash investing and financing activities:

Recognition of right-of-use assets for operating leases	8,195	1,358
Recognition of right-of-use assets for finance leases	1,502	468
Capital expenditure disbursements for cultivation facility	972	241
Extinguishment of note payable related to sale of Arizona business	-	22,505
Extinguishment of accrued interest payable related to sale of Arizona business	-	1,165
Reduction of lease liabilities related to sale of Arizona business	-	16,734
Reduction of right-of-use assets related to sale of Arizona business	-	16,739
Issuance of warrants in connection with debt extinguishment	47,049	-
Issuance of Equity Shares in connection with debt extinguishment	94,302	-

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

Ayr Wellness Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2024 and 2023
(Expressed in United States Dollars, in thousands, except where stated otherwise)

1. NATURE OF OPERATIONS

Ayr Wellness Inc. (“Ayr” or the “Company”) is a vertically integrated cannabis multi-state operator in the United States of America (“U.S.”); through its operating companies in various states throughout the U.S., Ayr is a leading cultivator, manufacturer, and retailer of cannabis products and branded cannabis packaged goods. The Company prepares its segment reporting on the same basis that its chief operating decision maker manages the business and makes operating decisions. The Company has one operating segment, cannabis sales. The Company’s segment analysis is reviewed regularly and will be re-evaluated when circumstances change.

The Company is a reporting issuer in the U.S. and Canada. The Company’s subordinate, restricted, and limited voting shares (“Equity Shares”) are trading on the Canadian Stock Exchange (“CSE”), under the symbol “AYR.A.” The Company’s Equity Shares are also quoted on the OTCQX® Best Market in the U.S. under the symbol “AYRWF.” The Company’s warrants (“Warrants”) are trading on the CSE under the symbol “AYR.WT.U”. Ayr’s headquarter office is 2601 South Bayshore Drive, Suite 900, Miami, FL 33133.

2. BASIS OF PRESENTATION

These interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the rules and regulations of Canadian securities regulators and the United States Securities and Exchange Commission (“SEC”). Accordingly, these interim financial statements are condensed and do not include all disclosures required for annual financial statements.

The financial data presented herein should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2023, included in the Company’s Annual Report on the Form 40-F filed with the SEC on March 13, 2024. In the opinion of management, the financial data presented includes all adjustments, consisting primarily of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These interim financial statements include estimates and assumptions of management that affect the amounts reported. Actual results could differ from these estimates. The results of operations of unaudited interim periods are not necessarily indicative of the results to be expected for the entire year, or any other period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The interim financial statements for the three months ended March 31, 2024 and 2023 include the accounts of the Company, its wholly-owned subsidiaries, and entities over which the Company has a controlling interest. Entities over which the Company has control are presented on a consolidated basis from the date control commences until the date control ceases. Equity investments where the Company does not exert a controlling interest are not consolidated. All intercompany balances and transactions involving controlled entities are eliminated on consolidation.

Ayr Wellness Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2024 and 2023
(Expressed in United States Dollars, in thousands, except where stated otherwise)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Earnings per share

The basic loss per share is computed by dividing the net loss by the weighted average number of shares outstanding, including Equity Shares, multiple voting shares of the Company and Exchangeable Shares, as defined below, during the period. The diluted loss per share reflects the potential dilution of shares by adjusting the weighted average number of shares outstanding to assume conversion of potentially dilutive shares, such as warrants (“Warrants”), restricted stock units (“RSUs”), and vested options of the Company (“Vested Options”). The treasury stock method is used for the assumed proceeds upon the exercise of the Warrants, and Vested Options that are used to purchase Equity Shares at the average market price during the period. If the Company incurs a net loss during a reporting period, the calculation of fully diluted loss per share will not include potentially dilutive equity instruments such as Warrants, RSUs, and Vested Options, because their effect would be anti-dilutive, therefore, basic loss per share and diluted loss per share will be the same. For the three months ended March 31, 2024 and 2023, the potentially dilutive financial instruments excluded from the calculation of earnings per share included 2,855 and nil warrants, nil and nil options and 1,107 and 3,480 RSUs, totaling 3,962 and 3,480 shares of potentially dilutive securities, respectively.

3.3 Significant accounting judgments and estimates

Significant estimates made by management include, but are not limited to: economic lives of leased assets; expected credit losses of accounts receivable; provisions for inventory obsolescence; impairment assessment of goodwill and long-lived assets; depreciable lives of property, plant and equipment; useful lives of intangible assets; accruals for contingencies, including tax contingencies; valuation allowances for deferred income tax assets; contingent consideration obligations resulting from business combinations; estimates of fair value of derivative instruments; estimates of fair value of debt; estimates of lease guarantees; estimates on uncertain tax positions; incremental borrowing rate used for leases; and estimates of the fair value of stock-based payment awards.

3.4 Derivative liabilities and long-term debt

The Company’s debt instruments contain a host liability and freestanding warrants. The Company uses the guidance under ASC Topic 815 – Derivatives and Hedging (“ASC 815”) and ASC Topic 480 – Distinguishing Liabilities from Equity (“ASC 480”) to determine if the embedded conversion feature must be bifurcated and separately accounted for as a derivative under ASC 815. It also determines whether any embedded conversion features requiring bifurcation and/or freestanding warrants qualify for any scope exceptions contained within ASC 815. Generally, contracts issued or held by a reporting entity that are both (i) indexed to its own stock; and (ii) classified in shareholders’ equity, would not be considered a derivative for the purposes of applying ASC 815. Any embedded conversion features and/or freestanding warrants that do not meet the scope exception noted above are classified as derivative liabilities, initially measured at fair value and remeasured at fair value each reporting period with changes in fair value recognized in the consolidated statements of operations. Any embedded conversion feature and/or freestanding warrants that meet the scope exception under ASC 815 are initially recorded at their relative fair value in paid-in-capital and are not remeasured at fair value in future periods. The Company concluded that the warrants meet the criteria to be classified as equity and should be measured at fair value on the date of issuance. There were no derivative liabilities on the interim balance sheets as of March 31, 2024 and December 31, 2023.

Ayr Wellness Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2024 and 2023
(Expressed in United States Dollars, in thousands, except where stated otherwise)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Derivative liabilities and long-term debt (Continued)

The host debt instrument is initially recorded at its relative fair value in long-term debt. The host debt instrument is accounted for in accordance with guidance applicable to non-convertible debt under ASC Topic 470 – Debt (“ASC 470”) and is accreted to its face value over the term of the debt with accretion expense and periodic interest expense recorded in the consolidated statements of operations. Issuance costs are allocated to each instrument (the debt host, embedded conversion feature and/or freestanding warrants) in the same proportion as the proceeds that are allocated to each instrument other than issuance costs directly related to an instrument are allocated to that instrument only. Issuance costs allocated to the debt host instrument are netted against the proceeds allocated to the debt host. Issuance costs allocated to freestanding warrants classified in equity are recorded in additional paid-in-capital.

3.5 Change in accounting standards

The Company is treated as an “emerging growth company” as defined under the Jumpstart Our Business Start-ups Act of 2012, as amended (the “JOBS Act”). Under the JOBS Act, emerging growth companies may delay adopting new or revised accounting standards until the standards apply to private companies, however, emerging growth companies are not precluded from early adopting new accounting standards that allow so.

Recently Issued and Adopted Accounting Standards

In June 2022, the FASB issued ASU No. 2022-03 Topic 820 – Fair Value Measurement – Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (“ASU 2022-03”), (1) to clarify the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) to amend a related illustrative example, and (3) to introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. ASU 2022-03 will be effective for public business entities for fiscal years beginning after December 15, 2023, including interim periods therein, with early adoption permitted. All other entities, including Emerging Growth Companies, would be required to adopt this ASU for fiscal years beginning after December 15, 2024 and interim periods therein. The Company’s historical accounting policy has been to reflect discounts for contractual restrictions which will no longer be permissible once the ASU is adopted.

Ayr Wellness Inc.
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(Expressed in United States Dollars, in thousands, except where stated otherwise)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Change in accounting standards (Continued)

On March 27, 2023, the FASB issued ASU No. 2023-01 Topic 842 – Leases – Common Control Arrangements (“ASU 2023-01”), in response to private company stakeholder concerns about applying Topic 842 to related party arrangements between entities under common control. ASU 2023-01 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years, early adoption is permitted. The adoption of this ASU did not have a material impact on the Company’s financial statements.

On December 14, 2023, the FASB issued ASU No. 2023-09 Topic 740 – Income Taxes (“ASU 2023-09”) to enhance the transparency and decision usefulness of income tax disclosures. The amendments in this Update address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years, early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2023-09 may have on the Company’s financial statements.

On March 21, 2024, the FASB issued ASU No. 2024-01 Topic 718 – Stock Compensation (“ASU 2024-01”) which clarifies how an entity determines whether a profits interest or similar award is within the scope of ASC 718 or not a share-based payment arrangement and therefore within the scope of other guidance. ASU 2024-01 is effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years, early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2024-01 may have on the Company’s financial statements.

In November 2023, the FASB issued ASU No. 2023-07 Topic 280 – Segment Reporting (“ASU 2023-07”) to improve the disclosures about a public entity’s reportable segments and address requests from investors for additional, more detailed information about a reportable segment’s expenses. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2023-07 may have on the Company’s financial statements.

Ayr Wellness Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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4. VARIABLE INTEREST ENTITIES (“VIE”)

The following tables present the summarized financial information about the Company’s consolidated VIEs which are included in the unaudited balance sheets as of March 31, 2024 and December 31, 2023 and interim statements of operations for the three months ended March 31, 2024 and 2023. As of March 31, 2024 and for the three months ended March 31, 2024, these entities were determined to be VIEs as the Company possesses the power to direct activities and obligation to absorb losses through management services agreements.

	<i>As of</i> March 31, 2024				<i>As of</i> December 31, 2023			
	NVG	Parma	Ohio Dispensaries	Total	TH/NVG	Parma	Ohio Dispensaries	Total
Current assets	\$ (644)	\$ 10,437	\$ (2,811)	\$ 6,982	\$ (351)	\$ 10,616	\$ (2,257)	\$ 8,008
Non-current assets	2,227	12,914	6,901	22,042	1,077	13,210	6,441	20,728
Total assets	\$ 1,583	\$ 23,351	\$ 4,090	\$ 29,024	\$ 726	\$ 23,826	\$ 4,184	\$ 28,736
Current liabilities	\$ 669	\$ 19,244	\$ 476	\$ 20,389	\$ 604	\$ 18,962	\$ 1,647	\$ 21,213
Non-current liabilities	1,494	981	3,337	5,812	383	1,280	3,369	5,032
Total liabilities	2,163	20,225	3,813	26,201	987	20,242	5,016	26,245
Noncontrolling interest	589	(10,553)	(3,423)	(13,387)	796	(10,158)	(1,764)	(11,126)
Equity (deficit) attributable to Ayr Wellness Inc.	(1,169)	13,679	3,700	16,210	(1,057)	13,742	932	13,617
Total liabilities and equity	\$ 1,583	\$ 23,351	\$ 4,090	\$ 29,024	\$ 726	\$ 23,826	\$ 4,184	\$ 28,736

	<i>Three Months Ended</i> March 31, 2024				<i>Three Months Ended</i> March 31, 2023			
	NVG	Parma	Ohio Dispensaries	Total	TH/NVG	Parma	Ohio Dispensaries	Total
Revenues, net of discounts	\$ -	\$ 1,340	\$ 1,184	\$ 2,524	\$ 538	-	-	\$ 538
Net loss attributable to noncontrolling interest	(207)	(395)	(1,659)	(2,261)	(243)	(2,782)	-	(3,025)
Net loss attributable to Ayr Wellness Inc.	-	-	(380)	(380)	-	-	-	-
Net loss	\$ (207)	\$ (775)	\$ (1,659)	\$ (2,641)	\$ (243)	\$ (2,782)	\$ -	\$ (3,025)

	TH/NVG	Parma	Ohio Dispensaries	Total
Noncontrolling interest at January 1, 2023	\$ 7,528	\$ (5,528)	-	\$ 2,000
Acquisition of Tahoe Hydro	(6,059)	-	-	(6,059)
Net loss during the period	(673)	(4,630)	(1,764)	(7,067)
Noncontrolling interest at December 31, 2023	796	(10,158)	(1,764)	(11,126)
Net loss during the period	(207)	(395)	(1,659)	(2,261)
Noncontrolling interest at March 31, 2024	\$ 589	\$ (10,553)	\$ (3,423)	\$ (13,387)

Ayr Wellness Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2024 and 2023
(Expressed in United States Dollars, in thousands, except where stated otherwise)

5. INVENTORY

The Company's inventory includes the following:

	March 31, 2024	December 31, 2023
Materials, supplies, and packaging	\$ 6,981	\$ 7,505
Work in process	71,628	69,632
Finished goods	34,909	29,226
Total inventory	\$ 113,518	\$ 106,363

The amount of inventory included in cost of goods sold during the three months ended March 31, 2024 and 2023, was \$56,618 and \$59,208, respectively. The Company reviews inventory on hand for estimated obsolescence or unmarketable items, as compared to future demand requirements and the shelf life of the various products. Based on the review, the Company records inventory write-downs, when necessary, when costs exceed expected net realizable value.

6. PROPERTY, PLANT, AND EQUIPMENT

As of March 31, 2024 and December 31, 2023, property, plant, and equipment, net consisted of the following:

	March 31, 2024	December 31, 2023
Furniture and equipment	\$ 53,610	\$ 52,793
Auto and trucks	1,392	1,393
Buildings	97,122	94,914
Leasehold improvements	177,457	173,043
Land	16,067	13,877
Construction in progress	11,683	12,571
Total	357,331	348,591
Less: Accumulated depreciation and amortization	43,460	37,976
Total property, plant and equipment, net	\$ 313,871	\$ 310,615

Capitalized interest for the three months ended March 31, 2024 and 2023, totaled \$1,461 and \$3,589, respectively. Depreciation and amortization expense for the three months ended March 31, 2024 and 2023, totaled \$5,511 and \$8,970, respectively, of which \$3,926 and \$3,859 respectively, is included in cost of goods sold.

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7. INTANGIBLE ASSETS

In December 2023, an entity co-owned by the Company was awarded a provisional Disproportionately Impacted Area cultivator license in Connecticut. The Company recorded an intangible asset of \$3,000 in connection with the cash payment for the cost of the provisional license. In December 2023, the Company acquired a standalone delivery license in Connecticut and recorded an intangible asset of \$200 in connection with the cash payment for the cost of the license. Operations have not started in Connecticut, as such, no amortization expense has been recorded as of the three months ended March 31, 2024.

Amortization expense is recorded within cost of goods sold and total operating expenses. The amount in cost of goods sold for the three months March 31, 2024 and 2023, was \$4,363 and \$3,881, respectively.

The following table represents intangible assets, net of accumulated amortization:

	<i>Amortization period (# of years)</i>	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Licenses/permits	15	\$ 627,818	\$ 641,036
Right-to-use licenses	15	16,080	16,407
Host community agreements	15	26,319	26,954
Trade name / brand	5	3,012	3,591
Total		<u>\$ 673,229</u>	<u>\$ 687,988</u>

The following table presents the future amortization expense as of March 31, 2024:

	<u>Amortization Expense</u>
Remainder of 2024	\$ 43,304
2025	57,312
2026	57,312
2027	57,312
2028	57,312
2029 and beyond	397,477
Total	<u>\$ 670,029</u>

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8. RIGHT-OF-USE ASSETS & LEASE LIABILITIES

Information related to operating and finance leases is as follows:

	March 31, 2024		March 31, 2023	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Incremental borrowing rate (weighted average)	11.82%	10.38%	11.76%	9.73%
Weighted average remaining lease term	11.96 yrs	4.81 yrs	12.89 yrs	4.87 yrs

The maturities of the contractual lease liabilities as of March 31, 2024 are as follows:

	Operating Leases	Finance Leases	Total
Remainder of 2024	\$ 22,792	\$ 8,959	\$ 31,751
2025	30,026	6,697	36,723
2026	29,363	4,709	34,072
2027	28,263	3,637	31,900
2028	27,681	2,805	30,486
2029 and beyond	206,943	6,479	213,422
Total undiscounted lease liabilities	345,068	33,286	378,354
Impact of discounting	(204,277)	(7,047)	(211,324)
Total present value of minimum lease payments	\$ 140,791	\$ 26,239	\$ 167,030

Payments related to capitalized leases during the three months ended March 31, 2024 and 2023, are as follows:

	Three Months Ended	
	March 31, 2024	March 31, 2023
Lease liabilities - operating		
Lease liabilities - operating expense, COGS	\$ 2,245	\$ 2,207
Lease liabilities - operating expense, G&A	4,508	3,900
Lease liabilities - finance		
Amortization of right-of-use assets, COGS	1,800	1,683
Amortization of right-of-use assets, G&A	34	48
Interest on lease liabilities - finance, COGS	671	752
Interest on lease liabilities - finance, G&A	8	12
Total lease expense	\$ 9,266	\$ 8,602

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9. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a board member or senior officer is a principal owner or senior executive. Other than disclosed elsewhere in the interim financial statements, related party transactions and balances are as follows:

Mercer Park, L.P., a company owned by a board member of Ayr, entered into a management agreement with the Company dated May 24, 2019. The management fee is paid monthly and varies based on actual costs incurred by the related entity when providing the Company administrative support, management services, office space, and utilities. In addition, the management fees paid to the related party also reimbursed them for other corporate or centralized expenses based on actual cost, including but not limited to legal and professional fees, software, and insurance. The agreement is a month-to-month arrangement.

As of March 31, 2024 and 2023, \$nil and \$86, respectively, was included in prepaid expenses, a majority of which is for a letter of credit for an operating lease. Lease fees included in the operating lease during the three months ended March 31, 2024 and 2023, were \$214 and \$213, respectively.

During the three months ended March 31, 2024 and 2023, the Company incurred fees from a company partially owned by a board member of Ayr. The total incurred fees were \$nil and \$14 of office expenses, \$nil and \$24 of development fees, \$311 and \$231 of rental fees, and \$7 and \$28 of interest expense, respectively, for the three months ended March 31, 2024 and 2023.

Refer below to the debts payable and senior secured notes and share capital notes for additional information regarding the debts payable to related parties and non-cash stock-based compensation plan, respectively, for the three months ended March 31, 2024 and 2023.

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10. DEBTS PAYABLE AND SENIOR SECURED NOTES

Senior Secured Notes

As of March 31, 2024 and December 31, 2023, the Company's senior secured notes consisted of the following:

	Senior secured notes
As of January 1, 2023	\$ 244,682
Debt issuance costs amortized	2,291
Senior secured notes premium amortized	(3,018)
As of December 31, 2023	\$ 243,955
Senior notes issued	50,000
Senior secured notes premium amortized	(2,867)
Debt issuance costs	(56,734)
Debt issuance costs amortized	(2,686)
Senior secured notes discount	(24,486)
Senior secured notes discount amortized	1,399
Total senior secured notes classified as non-current payable as of March 31, 2024	\$ 208,581
Total accrued interest payable related to senior secured notes classified as non-current payable as of March 31, 2024	\$ 5,520

On November 12, 2021, the Company completed a private placement offering of approximately \$133,250 aggregate principal amount of secured promissory notes at a premium price, resulting in approximately \$147,000 of proceeds due December 2024, with a resulting yield-to-maturity of 9.8%. The notes were considered additional notes under the indenture governing the Company's existing notes of \$110,000 which were entered into on December 10, 2020.

On February 7, 2024, following the receipt of court and other required regulatory approvals, the Company completed the debt restructuring transactions contemplated by the Support Agreement entered into with the Majority Noteholders, pursuant to which: (i) all of the Senior Secured Notes were exchanged for an equivalent principal amount of new 13% senior secured notes due December 10, 2026 (the "13% Senior Notes" and such exchange, the "Exchange Transaction"); (ii) an additional \$40,000 in gross cash proceeds was raised through the issuance of additional 13% Senior Notes in an aggregate principal amount of \$50,000 (the "New Money Notes") (subject to a 20% original issue discount) concurrent with the completion of the Exchange Transaction; (iii) as the offering of the New Money Notes was backstopped by one of the Majority Noteholders, such backstop party received a backstop premium on closing payable in the form of 5,948 Equity Shares (the "Backstop Shares") in the Company, and (iv) holders of the 12.5% Senior Secured Notes received 29,040 Equity Shares (the "New Shares") in the Company. The Backstop Shares and New Shares have contractual restrictions on their ability to be sold for six months, applicable to 50% of the shares issued. The fair value of the shares was based on the share price on the CSE at the date of closing and a 28.6% discount rate attributed to the equity security-specific restrictions, resulting in a fair value of \$94,302 at issuance. The Backstop Shares and New Shares met the criteria to be recorded as equity under ASC 815 and the fair value is included in the loss on extinguishment.

In accordance with debt extinguishment accounting rules outlined in ASC 470, the Company recorded a loss on extinguishment of \$79,172 for the three months ended March 31, 2024 in the interim statement of operations related to the restructuring of debt. In connection with the extinguishment in the aggregate amount of \$243,894, the Company issued new debt in the principal amount of \$293,250, including additional proceeds of \$40,000, which was recorded at fair value of \$268,764 and the Backstop Shares and New Shares issued on the closing date. On the closing date, the Company fully amortized the debt premium of \$2,615 related to the old debt that was extinguished and recognized a debt discount of \$24,486 related to the new debt.

In addition, 23,046 warrants (the "Anti-Dilutive Warrants") were issued to all the existing shareholders of Ayr (excluding recipients of the New Shares and the Backstop Shares). The Anti-Dilutive Warrants are exercisable for an equal number of Equity Shares at a price of \$2.12 per share until February 7, 2026.

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10. DEBTS PAYABLE AND SENIOR SECURED NOTES (Continued)

Senior Secured Notes (Continued)

The Anti-Dilutive Warrants are only exercisable by non-U.S. Persons and Accredited Investors in the U.S., as such terms are defined under U.S. securities laws. The Anti-Dilutive Warrants commenced trading on the CSE on February 14, 2024 under the ticker symbol AYR.WT.U. The Company evaluated the warrants issued under ASC 480 and ASC 815. These warrants do not have a redemption feature and are traded separately from our common shares on the CSE exchange. They can be converted into shares, on a one-for-one conversion ratio, upon payment of a fixed exercise price. The Company determined that these warrants are freestanding financial instruments that qualify for the scope exemption for being accounted as derivatives. The Company therefore concluded that the warrants meet the criteria to be classified as equity and should be measured at fair value on the date of closing. No changes would be required to the measurement amount or the classification unless an event that requires a reclassification of the warrants out of equity occurs.

Additionally, the Company incurred financing costs of \$65,314 related to the restructuring, which includes warrants issued to shareholders that had a fair value of \$47,049 at issuance, which was calculated using a Black-Scholes model and included assumptions such as volatility of 104.3% and a risk-free rate of 4.4%. The financing costs are being amortized to interest expense over the term of the loan using the straight-line method, approximating the effective interest method.

The 13% Senior Notes require the Company to comply with customary covenants, including restrictions on the payment of dividends, repurchase of stock, incurrence of indebtedness, dispositions, and acquisitions. The 13% Senior Notes also contain customary events of default including non-payment of principal or interest; violations of covenants; bankruptcy; cross defaults to other debt; and material judgment defaults. The 13% Senior Notes are guaranteed by all the Company's subsidiaries and are secured by substantially all the assets of the Company and its subsidiaries (subject to certain exceptions for excluded property). No prepayment premium is required for prepayment.

The 13% Senior Notes also require the Company to comply with two financial covenants under the 13% Senior Notes. The Company shall maintain an amount of unrestricted cash balance of no less than \$20,000, to be tested on the last day of each month, beginning on January 31, 2024. Additionally, commencing with the fiscal quarter ending September 30, 2024, the Company shall not permit the Consolidated Net Leverage Ratio (as defined in the Amended and Restated Indenture of the 13% Senior Notes) as of the end of any period of four (4) consecutive fiscal quarters ending on any date set forth below, as applicable, to be greater than the applicable leverage ratio set forth below:

Fiscal Quarter End	Consolidated Net Leverage Ratio
September 30, 2024	4.65:1.00
December 31, 2024	4.35:1.00
March 31, 2025	4.30:1.00
June 30, 2025	4.20:1.00
September 30, 2025	4.10:1.00
December 31, 2025	3.95:1.00
March 31, 2026	3.90:1.00
June 30, 2026	3.55:1.00
September 30, 2026	3.50:1.00

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10. DEBTS PAYABLE AND SENIOR SECURED NOTES (Continued)

Senior Secured Notes (Continued)

The Company has an equity cure right, through the new issuance of, or out of the net cash proceeds of, the sale of equity interests of the Company, for each of these financial covenants. The Company is in compliance with these covenants, as of March 31, 2024.

Debts Payable

As of March 31, 2024 and December 31, 2023, debts payable, including construction liabilities, other than senior secured notes consisted of the following:

	Debts payable
As of January 1, 2023	\$ 235,524
Discounted as of December 31, 2022	598
Debt issuance costs	(1,000)
Debt issuance costs amortized	50
Debt issued	66,245
Construction financing	2,024
Less: extinguishment related to sale of Arizona business	(22,505)
Less: repayment	(52,029)
Less: discounted to fair value	(199)
As of December 31, 2023	228,708
Discounted as of December 31, 2022	199
Debt issuance costs	(454)
Debt issuance costs amortized	25
Debt issued	8,763
Construction financing	972
Less: repayment	(6,247)
Total debts payable, undiscounted as of March 31, 2024	231,966
Less: discounted to fair value	(101)
Total debts payable as of March 31, 2024	\$ 231,865
Total accrued interest payable related to debts payable as of March 31, 2024	\$ 7,697

The details of debts payable, including construction liabilities, were as follows:

	March 31, 2024		
	Related party debt	Non-related party debt	Total debt
Total debts payable, undiscounted	\$ 369	\$ 232,975	\$ 233,344
Less: current portion	369	19,820	20,189
Less: debt issuance costs - current portion	-	214	214
Total non-current debt, undiscounted	-	212,941	212,941
Less: discount to fair value	-	101	101
Less: debt issuance costs - non-current portion	-	1,165	1,165
Total non-current debt	\$ -	\$ 211,675	\$ 211,675

The following table presents the future obligations, under debts payable, other than senior secured notes as of March 31, 2024:

Future debt obligations (per year)		
Remainder of 2024	\$	16,928
2025		24,077
2026		64,896
2027		15,071
2028		3,359
2029 and beyond		109,013
Total debt obligations	\$	233,344

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10. DEBTS PAYABLE AND SENIOR SECURED NOTES (Continued)

As part of business combinations and asset acquisitions, the Company issued and assumed notes with related and non-related parties. The related party notes are considered part of the purchase price to the former shareholders of the acquired businesses. As a result of the combinations and acquisitions, several of these individual shareholders are now considered related parties of the Company across various roles including directors, officers, and shareholders.

On October 31, 2023, the Company entered into an agreement with LivFree Wellness, LLC (“LivFree”) to amend certain terms of the promissory note dated May 24, 2019 (the “LivFree Note”) executed in connection with the Company’s acquisition of LivFree. The amendments to the LivFree Note provided, among other things, for a principal payment of \$3,000, paid upon closing of the debt restructuring transactions on February 7, 2024, and a deferral of the maturity of the remaining \$17,000 of principal and \$5,530 of accrued payment-in-kind interest for a period of two years to May 24, 2026. In addition, the interest on the LivFree Note converted from payment-in-kind to monthly cash interest payments and the interest rate increased from 6.0% to 10.0%. The modification for this loan did not meet the requirement of a debt extinguishment under ASC 470 and no gain or loss was recognized for the three months ended March 31, 2024.

On May 11, 2023, the Company reached an agreement to amend the terms of contingent consideration under the membership interest purchase agreements of GSD NJ LLC (“GSD”) and Sira Naturals, Inc. (“Sira”). The amendment for GSD settles the contingent consideration with total proceeds of \$38,860, consisting of \$10,000 in cash, promissory notes in an aggregate principal amount of \$14,000, \$10,925 in deferred cash, and \$4,647 of Equity Shares. The \$14,000 promissory notes are due December 2026 with monthly interest-only payments of 13.5% until May 2024 (with 1% monthly amortization thereafter). The number of Equity Shares was calculated based on a market price equal to \$0.79 which represents 3,797 Equity Shares. The deferred cash balance was paid in full in February 2024. The amendment for Sira represents a two-year deferral of the \$27,500 of proceeds payable from the original May 2024 payment date, with an annual interest rate of 6.0% and 10% annual amortization payments. The deferred payment is classified within other current and non-current liabilities.

On July 7, 2023, the Company entered into a loan agreement to refinance and upsize an existing mortgage which was due to mature in May 2024. The loan agreement included total proceeds of \$40,000, with an interest rate of 5-year Federal Home Loan Bank Rate plus 4%, which implies a current rate of 8.27% with interest-only payments for the first 18 months. The note extends the maturity of the existing mortgage to 10 years. Proceeds from the loan were used to pay down the Company’s existing mortgage of \$25,219. Additionally, on March 26, 2024, the Company completed an \$8,400 upsizing of its existing mortgage for the Gainesville cultivation facility, raising the principal amount to \$48,400. These funds will be allocated towards additional investments, as well as for general working capital needs. Aside from the upsizing, there were no modifications to the mortgage terms, including the interest rate or the maturity date set for 2033. The modification for this loan did not meet the requirement of a debt extinguishment under ASC 470 and no gain or loss was recognized for the three months ended March 31, 2024.

Interest expense associated with related party debt payable for the three months ended March 31, 2024 and 2023, was \$7 and \$28, respectively.

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11. SHARE CAPITAL

The following activity occurred during the three months ended March 31, 2023:

- In relation to the vesting of 56 RSUs, 41 Equity Shares were issued due to net settlement.
 - 55 shares were forfeited during the period.
- 354 Exchangeable Shares were exchanged for 354 Equity Shares related to the Q2 2022 acquisition of Herbal Remedies.
- 10 Exchangeable Shares were converted into Equity Shares as of March 31, 2023.

The following activity occurred during the three months ended March 31, 2024:

- In relation to the vesting of 1,778 RSUs, 1,777 Equity Shares were issued due to net settlement.
 - 14 shares were forfeited during the period.
- 34,988 Subordinate Shares were issued in connection with the debt restructuring.
- 23,046 Anti-Dilutive Warrants were issued to existing shareholders.
- 10 Subordinate Shares were issued in connection with the exercise of Warrants.

Warrants

The average remaining life of the Dilutive Warrants is under 2 months in 2024 (2023: 1.1 years) with an aggregate intrinsic value of \$nil in 2024 (2023: \$nil). The Dilutive Warrants have an exercise price of \$9.07US. The average remaining life of the Anti-Dilutive Warrants is under one year and eleven months with an intrinsic value of \$11,897. The Anti-Dilutive Warrants have an exercise price of \$2.12US. The number of Warrants outstanding as of March 31, 2024 and December 31, 2023 is:

	Number
Balance as of January 1, 2023	2,874
<i>No activity</i>	-
Balance as of December 31, 2023	2,874
Warrants Issued	23,046
Exercise of Warrants	(10)
Balance as of March 31, 2024	25,910

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12. STOCK-BASED COMPENSATION

The stock-based compensation expense is based on either the Company's share price for service-based and market-based conditions on the date of the grant or the fair value of the performance-based RSU. The RSUs vest over a one to four-year period, based on service, market, and/or performance conditions. During the three months ended March 31, 2024, there were 650 of both market and performance based RSUs outstanding, totaling 1,300. During the three months ended March 31, 2024 and 2023, the Company recognized stock-based compensation relating to the granting of RSUs in the current and prior periods, except for the market and performance based RSUs as they did not meet the probable threshold. Any cumulative adjustment prior to vesting is recognized in the current period with no adjustment to prior periods for expense previously recognized. During the three months ended March 31, 2024 and 2023 there were 14 and 55 forfeitures of nonvested RSUs, respectively.

During the three months ended March 31, 2024, 1,777 Equity Shares vested, of which 1,777 were issued due to net settlement. During the three months ended March 31, 2024, the result of the net settlement was 1 Equity Share was withheld with a total value of \$283. As of March 31, 2024, the average remaining life of unvested RSUs is one year and eight months with an expected expense over the next 12 months of \$12,536 with an aggregate intrinsic value of \$10,385 using the stock price as of March 28, 2024.

	Number of Shares	Weighted Average Grant Date Fair Value
RSUs outstanding and nonvested, as of January 1, 2023	6,628	\$ 17.56
Granted	1,760	1.20
Vested	(3,262)	18.15
Forfeited	(137)	9.09
RSUs outstanding and nonvested, as of December 31, 2023	4,989	\$ 17.56
Granted	2,041	2.13
Vested	(1,777)	16.96
Forfeited	(14)	0.67
RSUs outstanding and nonvested, as of March 31, 2024¹	5,239	\$ 11.80

¹ Includes Ayr granted but unvested market and performance based RSUs totaling 1,300 that do not meet the probability threshold

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12. STOCK-BASED COMPENSATION (Continued)

Options

The range of exercise price is between \$10.59 and \$29.05. As of March 31, 2024 and 2023, the weighted average remaining life of the options is under six months and seven months, respectively, with an aggregate intrinsic value of \$nil and \$nil, respectively.

The number of options outstanding as of March 31, 2024 and December 31, 2023 is:

	Number of Options	Weighted Average Fair Value
Balance as of January 1, 2023	165	\$ 17.93
Options exercised	(6)	17.93
Balance as of December 31, 2023	159	\$ 20.30
Options expired/cancelled	(33)	29.60
Balance as of March 31, 2024	126	\$ 17.84

13. COMMITMENTS AND CONTINGENCIES

Commitments

As of March 31, 2024, the Company guaranteed the lease obligation of a location related to a third-party that operates a dispensary in New Jersey. The Company is the guarantor of the lease with maximum total payments of \$792 and will continue as the guarantor through December 2028. The Company would be required to perform under the guarantee if the third-party is in default. As of March 31, 2024, the Company does not anticipate any defaults under the foregoing lease, and therefore, no liability has been accrued.

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13. COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

On March 27, 2020, the U.S. Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law, aimed at providing emergency assistance and health care for individuals, families, and businesses affected by the COVID-19 pandemic and generally supporting the U.S. economy. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, and modifications to the net interest deduction limitations. Employee Retention Credit (“ERC”) is a refundable credit against certain employment taxes equal to 50% of the qualified wages an eligible employer paid to employees from March 17, 2020 to December 31, 2020. The U.S. Disaster Tax Relief Act, enacted on December 27, 2020, extended the employee retention credit for qualified wages paid from January 1, 2021 to June 30, 2021, and the credit was increased to 70% of qualified wages an eligible employer paid to employees during the extended period. The American Rescue Plan Act of 2021, enacted on March 11, 2021, further extended the employee retention credit through December 31, 2021. The general statute of limitations for employment tax audits is three years, but the Internal Revenue Service’s (“IRS”) ERC guidance has an extended five-year statute. The Company experienced full or partial suspension of portions of the business during the period covered by the ERC due to government orders limiting commerce, travel, or group meeting due to COVID-19. In 2023, the Company filed for an ERC for the period beginning January 1 to June 30, 2021 in the amount of \$12,354. During 2023, the Company received notices from the Internal Revenue Service for a total ERC refund of \$5,238 and recorded a receivable included as part of prepaid expenses, deposits, and other current assets in the interim balance sheets and other income on the interim statements of operations. In accordance with ASC 958-605, Not-for-Profit Entities – Revenue Recognition, the Company determined that the condition to record a receivable is met when the IRS confirms the claim is valid or the cash is received. Absent of any confirmation, there remains uncertainty as to whether the amounts will be received. Due to the degree of uncertainty regarding the implementation of the CARES Act and other stimulus legislation and the nature of our business, although the Company expects to receive the remaining ERC, the Company determined that the remaining claim did not yet meet the criteria to record as a receivable as of March 31, 2024. Subsequent to March 31, 2024, the Company received partial proceeds relating to its ERC refund in the amount of \$2,728.

The Company’s operations are subject to a variety of local and state governmental regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance, in all material respects, with applicable local and state governmental regulations as of March 31, 2024, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of March 31, 2024, there were no material pending or threatened lawsuits that could be reasonably expected to have a material effect on the results of the Company’s operations. There are also no proceedings in which any of the Company’s directors, officers or affiliates are an adverse party or have a material interest adverse to the Company’s interest.

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14. FINANCIAL RISK FACTORS

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash and long-term debts. Cash and deposits bear interest at market rates. The Company's debts are predominantly at fixed rates of interest. The Company does not use any derivative instruments to hedge against interest rate risk and believes that the change in interest rates will not have a significant impact on its financial results.

15. TAXATION

As the Company operates in the legal cannabis industry, the Company is also subject to the limits of Section 280E of the Internal Revenue Code, as amended ("Section 280E") for U.S. federal income tax purposes as well as state income tax purposes for all states except for Illinois, Massachusetts, and New Jersey. Under Section 280E, the Company is generally only allowed to deduct expenses directly related to cost of goods sold. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under Section 280E. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss recognized for financial reporting purposes. The effective tax rate differs from the statutory rate primarily due to the impact of 280E.

The Company is treated as a U.S. corporation for the U.S. federal income tax purposes under Section 7874 of the Internal Revenue Code, as amended ("Section 7874") and is subject to U.S. federal income tax on its worldwide income. However, for Canadian tax purposes, the Company, regardless of any application of Section 7874, is treated as a Canadian resident company (as defined in the Income Tax Act (Canada) (the "ITA") for Canadian income tax purposes. As a result, the Company is subject to taxation both in Canada and the United States. The Company is also subject to state income taxation in Massachusetts, Pennsylvania, Florida, Illinois, Nevada, New Jersey, and City Income Tax in Ohio. Income Tax is accounted for in accordance with ASC 740, Income Taxes.

The following table summarizes the Company's income tax expense and effective tax rates from continuing operations for the three months ended March 31, 2024 and 2023.

	Three Months Ended	
	March 31, 2024	March 31, 2023
Loss from continuing operations before income taxes and noncontrolling interest	\$ (96,852)	\$ (1,205)
Provision for income taxes from continuing operations	(11,484)	(11,178)
Effective tax rate	12%	928%

Significant judgment is required in evaluating the Company's uncertain tax positions and determining the provision for income taxes. The Company recognizes benefits from uncertain tax positions based on the cumulative probability method whereby the largest benefit with a cumulative probability of greater than 50% is recorded. An uncertain tax position is recognized if it has less than a 50% likelihood of being sustained.

The following is a reconciliation of the unrecognized tax benefits:

	Unrecognized tax benefits
Balance as of January 1, 2024	\$ -
Additions based on tax positions related to the prior years	468,070
Additions based on tax positions related to the current year	31,611
Balance as of March 31, 2024	<u>\$ 499,681</u>

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15. TAXATION (Continued)

The Company's net uncertain tax liabilities, inclusive of interest and penalties and tax payments on deposit, were approximately \$87,653 and \$nil as of March 31, 2024 and December 31, 2023, respectively, which is recorded in other long-term liabilities in the interim balance sheets. The increase of \$87,653 in uncertain tax positions is due to tax positions based on legal interpretations that challenge the Company's tax liability under Section 280E. As a result, effective March 31, 2024, the Company changed estimates in the income tax provision, resulting in a new uncertain tax position of \$87,653.

During the three months ended March 31, 2024 and 2023, the Company recorded interest and penalties of \$1,495 and \$nil, respectively. Total liabilities for interest and penalties were \$14,168, and \$12,673 of as of March 31, 2024 and December 31, 2023, respectively. The interest and penalties are recorded to the uncertain tax positions liability, except for the Q1 2024 amount which is recorded in current taxes payable.

The Company's quarterly tax provision is calculated under the discrete method which treats the interim period as if it were the annual period and determines the income tax expense or benefit on that basis. The discrete method is applied when application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The Company believes, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method due to the high degree of uncertainty in estimating annual pre-tax income.

16. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events through the date the financial statements were issued.

Subsequent to March 31, 2024, the Company amended a finance lease of a cultivation facility, terminating the option to repurchase the facility at the end of the lease term. The amendment will be accounted for as a lease modification. The Company is evaluating the impact of the amended terms.