# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2022**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from ________to ___________**

**Commission File Number:000-56228**

# IANTHUS CAPITAL HOLDINGS, INC.
**(Exact Name of Registrant as Specified in its Charter)**

| | |
|---|---|
| **British Columbia, Canada**<br>**(State or other jurisdiction of incorporation or organization)** | **98-1360810**<br>**(I.R.S. Employer Identification No.)** |
| **420 Lexington Avenue, Suite 414**<br>**New York, NY**<br>**(Address of principal executive offices)** | **10170**<br>**(Zip Code)** |

**(646)518-9411**
**(Registrant's telephone number, including area code)**

**Not applicable**
**(Former name, former address and former fiscal year, if changed since last report)**

**Securities registered pursuant to Section 12(b) of the Act: None.**

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☒ |

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2of the Exchange Act). Yes ☐ No ☒

Number of common shares outstanding as of August 12, 2022 was 6,244,297,897.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA**

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any statements in this Quarterly Report on Form 10-Q about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as "believe," "will," "expect," "anticipate," "estimate," "intend," "plan" and "would." For example, statements concerning financial condition, possible or assumed future results of operations, growth opportunities, industry ranking, plans and objectives of management, markets for our common shares and future management and organizational structure are all forward-looking statements. Forward-looking statements are not guarantees of performance. They involve known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance or achievements to differ materially from any results, levels of activity, performance or achievements expressed or implied by any forward-looking statements.

Any forward-looking statements are qualified in their entirety by reference to the risk factors discussed throughout our most recent Annual Report on Form 10-K and any updates described in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K as may be amended, supplemented or superseded from time to time by other reports we file with the U.S. Securities and Exchange Commission (the "SEC"). You should read this Quarterly Report on Form 10-Q and the documents that we referenced herein and have filed as exhibits to the reports we file with the SEC, completely and with the understanding that our actual future results may be materially different from what we expect. You should assume that the information appearing in this Quarterly Report on Form 10-Q is accurate as of the date hereof. Because the risk factors in our SEC reports could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of the information presented in this Quarterly Report on Form 10-Q, and particularly our forward-looking statements, by these cautionary statements.

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ITEM 1. FINANCIAL STATEMENTS

**iANTHUS CAPITAL HOLDINGS, INC.**
**UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET**
*(In thousands of U.S. dollars or shares)*

| | June 30, 2022 | December 31, 2021 (Revised) |
|---|---|---|
| **Assets** | | |
| Cash | $ 29,803 | $ 13,244 |
| Restricted cash | 1,337 | 3,334 |
| Accounts receivable, net of allowance for doubtful accounts of $4 (December 31, 2021—$27) | 3,007 | 3,595 |
| Prepaid expenses | 4,050 | 3,178 |
| Inventories, net | 29,138 | 28,692 |
| Other current assets | 1,226 | 1,603 |
| **Current Assets** | **68,561** | **53,646** |
| Investments | 394 | 568 |
| Property, plant and equipment, net | 109,454 | 112,634 |
| Right-of-use assets | 31,955 | 30,429 |
| Other long-term assets | 3,897 | 8,650 |
| Intangible assets, net | 150,034 | 139,062 |
| **Total Assets** | **$ 364,295** | **$ 344,989** |
| **Liabilities and Shareholder's Deficit** | | |
| Accounts payable | $ 12,883 | $ 13,636 |
| Accrued and other current liabilities | 72,763 | 98,933 |
| Current portion of long-term debt, net of issuance costs | 13,495 | 165,381 |
| Derivative liabilities | — | 16 |
| Current portion of lease liabilities | 7,852 | 7,342 |
| **Current Liabilities** | **106,993** | **285,308** |
| Long-term debt, net of issuance costs | 125,572 | 27,999 |
| Deferred income tax | 31,597 | 27,507 |
| Long-term portion of lease liabilities | 29,157 | 27,814 |
| **Total Liabilities** | **293,319** | **368,628** |
| **Commitments and Contingencies** | | |
| **Shareholders' Equity (Deficit)** | | |
| Common shares —no par value. Authorized —unlimited number. 6,244,298 — issued and outstanding (December 31, 2021 — 171,718 — issued and outstanding) | — | — |
| Shares to be issued | 1,531 | 1,531 |
| Additional paid-in capital (Refer to Note 6) | 1,254,741 | 776,462 |
| Accumulated deficit | (1,185,296) | (801,632) |
| **Total Shareholders' Equity (Deficit)** | **$ 70,976** | **$ (23,639)** |
| **Total Liabilities and Shareholders' Equity (Deficit)** | **$ 364,295** | **$ 344,989** |

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

**iANTHUS CAPITAL HOLDINGS, INC.**
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
*(In thousands of U.S. dollars, except per share amounts)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Revenues, net of discounts** | **$ 43,481** | **$ 54,228** | **$ 86,271** | **$106,033** |
| **Costs and expenses applicable to revenues** | **(23,813)** | **(22,917)** | **(44,111)** | **(45,001)** |
| **Gross profit** | **19,668** | **31,311** | **42,160** | **61,032** |
| **Operating expenses** | | | | |
| Selling, general and administrative expenses | 58,130 | 21,491 | 81,536 | 45,719 |
| Depreciation and amortization | 6,810 | 7,264 | 15,216 | 14,096 |
| Write-downs, recoveries and other charges, net | 154 | (73) | 211 | 186 |
| Impairment loss | — | 1,696 | — | 1,696 |
| **Total operating expenses** | 65,094 | 30,378 | 96,963 | 61,697 |
| **(Loss) Income from operations** | **(45,426)** | **933** | **(54,803)** | **(665)** |
| Interest income | 16 | 109 | 76 | 233 |
| Other income | 912 | 220 | 12,178 | 494 |
| Interest expense | (5,793) | (5,879) | (11,687) | (11,557) |
| Accretion expense | (775) | (2,664) | (1,541) | (7,516) |
| Provision for debt obligation fee | (390) | (418) | (804) | (832) |
| Loss on debt extinguishment (Refer to Note 5) | (316,577) | — | (316,577) | — |
| Losses from change in fair value of financial instruments | (138) | 327 | (240) | 310 |
| **Loss before income taxes** | **(368,171)** | **(7,372)** | **(373,398)** | **(19,533)** |
| Income tax expense | 5,391 | 7,884 | 10,266 | 15,175 |
| **Net loss** | **$(373,562)** | **$ (15,256)** | **$(383,664)** | **$ (34,708)** |
| **Net loss per share - basic and diluted** | **$ (0.65)** | **$ (0.09)** | **$ (1.03)** | **$ (0.20)** |
| **Weighted average number of common shares outstanding - basic and diluted** | **572,108** | **171,643** | **373,019** | **171,718** |

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

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## iANTHUS CAPITAL HOLDINGS, INC.
## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT) EQUITY
*(In thousands of U.S. dollars or shares)*

| | Three Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Number of Common Shares ('000) | Shares to be Issued | Additional Paid-in-Capital | Accumulated Deficit | Total Shareholders' (Deficit) Equity |
| **Balance – March 31, 2022** | **171,718** | **$ 1,531** | **$ 777,926** | **$ (811,734)** | **$ (32,277)** |
| Share-based compensation | — | — | 21,372 | — | 21,372 |
| Share issuance - Recapitalization Transaction | 6,072,580 | — | 455,443 | — | 455,443 |
| Net loss | — | — | — | (373,562) | (373,562) |
| **Balance – June 30, 2022** | **6,244,298** | **$ 1,531** | **$ 1,254,741** | **$ (1,185,296)** | **$ 70,976** |

| | Six Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Number of Common Shares ('000) | Shares to be Issued | Additional Paid-in-Capital | Accumulated Deficit | Total Shareholders' (Deficit) Equity |
| **Balance – January 1, 2022 - (Revised)** | **171,718** | **$ 1,531** | **$ 776,462** | **$ (801,632)** | **$ (23,639)** |
| Share-based compensation | — | — | 22,836 | — | 22,836 |
| Share issuance - Recapitalization Transaction | 6,072,580 | — | 455,443 | — | 455,443 |
| Net loss | — | — | — | (383,664) | (383,664) |
| **Balance – June 30, 2022** | **6,244,298** | **$ 1,531** | **$ 1,254,741** | **$ (1,185,296)** | **$ 70,976** |

| | Three Months Ended June 30, 2021 | | | | |
|---|---|---|---|---|---|
| | Number of Common Shares ('000) | Shares to be Issued | Additional Paid-in-Capital | Accumulated Deficit | Total Shareholders' Equity |
| **Balance – March 31, 2021** | **171,718** | **$ 1,531** | **$ 771,574** | **$ (743,594)** | **$ 29,511** |
| Share-based compensation | — | — | 1,661 | — | 1,661 |
| Net loss | — | — | — | (15,256) | (15,256) |
| **Balance – June 30, 2021** | **171,718** | **$ 1,531** | **$ 773,235** | **$ (758,850)** | **$ 15,916** |

| | Six Months Ended June 30, 2021 | | | | |
|---|---|---|---|---|---|
| | Number of Common Shares ('000) | Shares to be Issued | Additional Paid-in-Capital | Accumulated Deficit | Total Shareholders' Equity |
| **Balance – January 1, 2021 - (Revised)** | **171,718** | **$ 1,531** | **$ 769,940** | **$ (724,142)** | **$ 47,329** |
| Share-based compensation | — | — | 3,295 | — | 3,295 |
| Net loss | — | — | — | (34,708) | (34,708) |
| **Balance – June 30, 2021** | **171,718** | **$ 1,531** | **$ 773,235** | **$ (758,850)** | **$ 15,916** |

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

**iANTHUS CAPITAL HOLDINGS, INC.**
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
*(In thousands of U.S. dollars)*

| | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net loss | $ (383,664) | $ (34,708) |
| Adjustments to reconcile net loss to cash (used in) provided by operations: | | |
| Interest income | (76) | (233) |
| Interest expense | 11,687 | 11,557 |
| Accretion expense | 1,541 | 7,516 |
| Debt obligation fees | 804 | 832 |
| Impairment loss | — | 1,696 |
| Depreciation and amortization | 16,424 | 15,133 |
| Write-downs, recoveries and other charges, net | 211 | 186 |
| Share-based compensation | 22,836 | 3,295 |
| Losses from change in fair value of financial instruments | 240 | (310) |
| Gain from nonmonetary consideration from acquisition (Refer to Note 4) | (10,460) | — |
| Loss on debt extinguishment (Refer to Note 5) | 316,577 | — |
| Change in operating assets and liabilities (Refer to Note 13) | 18,227 | 7,409 |
| **NET CASH FLOW (USED IN) PROVIDED BY OPERATING ACTIVITIES** | **$ (5,653)** | **$ 12,373** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | (4,731) | (9,611) |
| Acquisition of other intangible assets | (70) | (31) |
| Proceeds from sale of property, plant and equipment | 885 | — |
| Issuance of related party promissory note | (92) | (638) |
| Purchase of subsidiaries, net of cash acquired | 4 | — |
| **NET CASH USED IN INVESTING ACTIVITIES** | **$ (4,004)** | **$ (10,280)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Proceeds from issuance of debt | 24,250 | 11,000 |
| Debt issuance costs | — | (694) |
| Repayment of debt | (31) | (28) |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | **$ 24,219** | **$ 10,278** |
| **CASH AND RESTRICTED CASH:** | | |
| **NET INCREASE IN CASH AND RESTRICTED CASH DURING THE PERIOD** | 14,562 | 12,371 |
| **CASH AND RESTRICTED CASH, BEGINNING OF PERIOD (Refer to Note 13)** | 16,578 | 11,510 |
| **CASH AND RESTRICTED CASH, END OF PERIOD (Refer to Note 13)** | **$ 31,140** | **$ 23,881** |

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

**iANTHUS CAPITAL HOLDINGS, INC.**
**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
*(Tabular U.S. dollar amounts and shares in thousands, unless otherwise stated)*

**Note 1 – Organization and Description of Business**

***(a) Description of Business***

iAnthus Capital Holdings, Inc. ("ICH", or "iAnthus"), together with its consolidated subsidiaries (the "Company") was incorporated under the laws of British Columbia, Canada, on November 15, 2013. The Company is a vertically-integrated multi-state owner and operator of licensed cannabis cultivation, processing and dispensary facilities, and developer, producer and distributor of innovative branded cannabis and cannabidiol ("CBD") products in the United States. Through the Company's subsidiaries, licenses, interests and contractual arrangements, the Company has the capacity to operate dispensaries and cultivation/processing facilities, and manufacture and distribute cannabis across the states in which the Company operates in the U.S.

The Company's business activities, and the business activities of its subsidiaries, which operate in jurisdictions where the use of marijuana has been legalized under state and local laws, currently are illegal under U.S. federal law. The U.S. Controlled Substances Act classifies marijuana as a Schedule I controlled substance. Any proceeding that may be brought against the Company could have a material adverse effect on the Company's business plans, financial condition and results of operations.

***(b) Basis of Presentation***

The accompanying unaudited interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and, therefore, certain information, footnotes and disclosures normally included in the annual financial statements, prepared in accordance with U.S. GAAP, have been condensed or omitted in accordance with SEC rules and regulations.

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, 2021, included in the Company's Annual Report on the Form 10-K filed with the SEC on March 18, 2022. In the opinion of management, the financial data presented includes all adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These unaudited interim condensed consolidated financial statements include estimates and assumptions of management that affect the amounts reported on the unaudited condensed consolidated financial statements. Actual results could differ from these estimates.

The results of operations for the three and six months ended June 30, 2022 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2022, or any other period.

Except as otherwise stated, these unaudited interim condensed consolidated financial statements are presented in U.S. dollars.

***(c) Consummation of Recapitalization Transaction***

On June 24, 2022 (the "Closing Date"), the Company completed its previously announced recapitalization transaction (the "Recapitalization Transaction") pursuant to the terms of that certain Restructuring Support Agreement (the "Restructuring Support Agreement") dated July 10, 2020, as amended on June 15, 2021, by and among the Company, all of the holders (the "Secured Lenders") of the 13.0% senior secured convertible debentures (the "Secured Notes") issued by iAnthus Capital Management, LLC ("ICM"), a wholly-owned subsidiary of the Company, and a majority of the holders (the "Consenting Unsecured Lenders") of the Company's 8.0% unsecured convertible debentures (the "Unsecured Debentures"). The Recapitalization Transaction closed pursuant to the terms of the amended and restated plan of arrangement (the "Plan of Arrangement") under the Business Corporations Act (British Columbia) approved by the Supreme Court of British Columbia (the "Court"). Pursuant to the terms of the Restructuring Support Agreement, Gotham Green Admin 1, LLC as collateral agent (the "Collateral Agent"), the Secured Lenders and the Consenting Unsecured Lenders agreed to forbear from further exercising any rights or remedies in connection with any events of default that existed or may have existed in the future arising under any of the purchase agreements with respect to the Secured Notes and all other agreements delivered in connection therewith, the purchase agreements with respect to the Unsecured Debentures and all other agreements delivered in connection therewith and any other agreement to which the Collateral Agent, Secured Lenders, or Consenting Unsecured Lenders are a party to (collectively, the "Defaults"). As of the Closing Date, the Collateral Agent, Secured Lenders and Consenting Unsecured Lenders irrevocably waived all Defaults.

In connection with the closing of the Recapitalization Transaction, the Company issued an aggregate of6,072,580 common shares to the Secured Lenders and all of the holders (the "Unsecured Lenders" and together with the Secured Lenders, the "Lenders") of the Unsecured Debentures. Specifically, the Company issued 3,036,290 common shares (the "Secured Lender Shares"), or48.625% of the outstanding common shares of the Company, to the Secured Lenders and 3,036,290 common shares (the "Unsecured Lender Shares" and together with Secured Lender Shares, the "Shares"), or 48.625% of the outstanding common shares of the Company, to the Unsecured Lenders. As of the Closing Date, there were6,244,298 common shares of the Company issued and outstanding. As of the Closing Date, the then existing holders of the Company's common shares collectively held 171,718 common shares, or 2.75% of the outstanding common shares of the Company.

**iANTHUS CAPITAL HOLDINGS, INC.**
**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
*(Tabular U.S. dollar amounts and shares in thousands, unless otherwise stated)*

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

***Secured Debenture Purchase Agreement***

In connection with the closing of the Recapitalization Transaction, the Company entered into a Third Amended and Restated Secured Debenture Purchase Agreement (the "Secured DPA"), dated as of June 24, 2022, with ICM, the other Credit Parties (as defined in the Secured DPA), the Collateral Agent, and the lenders party thereto (the "New Secured Lenders") pursuant to which ICM issued the New Secured Lenders 8.0% secured debentures (the "June Secured Debentures") in the aggregate principal amount of $99.7 million pursuant to the Plan of Arrangement.

The June Secured Debentures accrue interest at a rate of 8.0% per annum (increasing to 11.0% upon the occurrence of an Event of Default (as defined in the Secured DPA)), are due on June 24, 2027 and may be prepaid on a pro rata basis from and after the third anniversary of the Closing Date upon prior written notice to the New Secured Lenders without premium or penalty. Upon receipt of a Change of Control Notice (as defined in the Secured DPA), each New Secured Lender may provide notice to ICM to either (i) purchase the June Secured Debenture at a price equal to 103.0% of the then outstanding principal amount together with interest accrued thereon (the "Offer Price") or (ii) if the Change of Control Transaction (as defined in Secured DPA) results in a new issuer, or if the New Secured Lender desires that the June Secured Debenture remain unpaid and continue in effect after the closing of the Change of Control Transaction, convert or exchange the June Secured Debenture into a replacement debenture of the new issuer or ICM, as applicable, in the aggregate principal amount of the Offer Price on substantially equivalent terms to those terms contained in the June Secured Debenture. Notwithstanding the foregoing, if 90.0% or more of the principal amount of all June Secured Debentures outstanding have been tendered for redemption on the date of the Change of Control Notice, ICM may, at its sole discretion, redeem all of the outstanding June Secured Debentures at the Offer Price. As security for the Obligations (as defined in the Secured DPA), ICM and the Company granted to the Collateral Agent, for the benefit of the New Secured Lenders, a security interest over all of their present and after acquired personal property.

Pursuant to the Secured DPA, so long as Gotham Green Partners, LLC or any of its Affiliates (as defined in the Secured DPA) hold at least 50.0% of the outstanding principal amount of June Secured Debentures, the Collateral Agent will have the right to appoint two non-voting observers to the Company's board of directors, each of which shall receive up to a maximum amount of $25 thousand dollars in any 12-month period for reasonable out-of-pocket expenses.

In addition, pursuant to the Secured DPA, the New Secured Lenders purchased an additional $25.0 million of June Secured Debentures (the "Additional Secured Debentures").

***Unsecured Debenture Purchase Agreement***

In connection with the closing of the Recapitalization Transaction, the Company, as guarantor of the Guaranteed Obligations (as defined in the Unsecured DPA (as defined herein)), entered into an Unsecured Debenture Purchase Agreement (the "Unsecured DPA") dated as of June 24, 2022 with ICM, the Secured Lenders and the Consenting Unsecured Lenders pursuant to which ICM issued 8.0% unsecured debentures (the "June Unsecured Debentures") in the aggregate principal amount of $20.0 million pursuant to the Plan of Arrangement, including $5.0 million to the Secured Lenders and $15.0 million to the Unsecured Lenders.

The June Unsecured Debentures accrue interest at a rate of8.0% per annum (increasing to 11.0% upon the occurrence of an Event of Default (as defined in the Unsecured DPA)), are due on June 24, 2027 and may be prepaid on a pro rata basis from and after the third anniversary of the Closing Date upon prior written notice to the Unsecured Lender without premium or penalty. Upon receipt of a Change of Control Notice (as defined in the Unsecured DPA), each Unsecured Lender may provide notice to ICM to either (i) purchase the June Unsecured Debenture at a price equal to 103.0% of the then outstanding principal amount together with interest accrued thereon (the "Unsecured Offer Price") or (ii) if the Change of Control Transaction (as defined in Unsecured DPA) results in a new issuer, or if the Unsecured Lender desires that the June Unsecured Debenture remain unpaid and continue in effect after the closing of the Change of Control Transaction, convert or exchange the June Unsecured Debenture into a replacement debenture of the new issuer or ICM, as applicable, in the aggregate principal amount of the Unsecured Offer Price on substantially equivalent terms to those terms contained in the June Unsecured Debenture. Notwithstanding the foregoing, if 90.0% or more of the principal amount of all June Unsecured Debentures outstanding have been tendered for redemption on the date of the Change of Control Notice, ICM may, at its sole discretion, redeem all of the outstanding June Unsecured Debentures at the Unsecured Offer Price. Pursuant to the Unsecured DPA, the Obligations (as defined in the Unsecured DPA) are subordinated in right of payment to the Senior Indebtedness (as defined in the Unsecured DPA).

Refer to Note 5 for further discussion regarding the Recapitalization Transaction.

***(d) Going Concern***

These unaudited interim condensed consolidated financial statements have been prepared under the assumption that the Company will be able to continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. For the three and six months ended June 30, 2022, the Company reported net losses of $373.6 million and $383.7 million, respectively, for the six months ended June 30, 2022, an operating cash outflow of $5.7 million and an accumulated deficit of $1,185.3 million as of June 30, 2022.

The Company believes that the consummation of the Recapitalization Transaction will provide the necessary funding for the Company to continue funding its operations in the future. Further, the consummation of the Recapitalization Transaction resulted in lower interest rates on the June Secured Debentures, June Unsecured Debentures and the Senior Secured Bridge Notes, allows interest to be paid-in-kind and enables the Company to seek additional debt or equity financings in the future. As such, the Company believes it may generate positive cash flows in the future and continue as a going concern for a period of no less than 12 months from the date of these unaudited interim condensed consolidated financial statements. These unaudited interim condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

***(e) Basis of Consolidation***

The unaudited interim condensed consolidated financial statements include the accounts of the Company together with its consolidated subsidiaries, except for subsidiaries which the Company has identified as variable interest entities where the Company is not the primary beneficiary.

***(f) Use of Estimates***

The preparation of the unaudited interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of unaudited interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations regarding future events that are believed to be reasonable under the circumstances. Actual results may differ significantly from these estimates.

Significant estimates made by management include, but are not limited to: economic lives of leased assets; inputs used in the valuation of inventory; allowances for potential uncollectability of accounts receivable; provisions for inventory obsolescence; impairment assessment of 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; estimates of fair value of identifiable assets and liabilities acquired in business combinations; estimates of fair value of derivative instruments; and estimates of the fair value of stock-based payment awards.

*(Tabular U.S. dollar amounts and shares in thousands, unless otherwise stated)*

***(g) Change in Estimates***

In January 2021, the Company completed an assessment of the yield per gram that is used as an input to value the Company's inventory. The timing of this review was based on a combination of factors accumulating over time that provided the Company with updated information to make a better estimate on the yield of its products. These factors included enhanced data gathering of crop production and yields into inventory. The assessment resulted in a revision of the Company's production yield estimates that are used to value ending inventory. The effect of this change was an increase in costs and expenses applicable to revenues of approximately $2.9 million in the first quarter of 2021.

***(h) Coronavirus Pandemic***

In March 2020, the World Health Organization declared the global emergence of the novel coronavirus, known asCOVID-19 ("COVID-19") a pandemic. The Company continues to monitor guidance and orders issued by federal, state, and local authorities with respect to COVID-19. As a result, the Company may take actions that alter its business operations as may be required by such guidance and orders or take other steps that the Company determines are in the best interest of its employees, customers, partners, suppliers, shareholders, and stakeholders.

Any such alterations or modifications could cause substantial interruption to the Company's business and could have a material adverse effect on the Company's business, operating results, financial condition, and the trading price of the Company's common shares, and could include temporary closures of one or more of the Company's facilities; temporary or long-term labor shortages; temporary or long-term adverse impacts on the Company's supply chain and distribution channels; and the potential of increased network vulnerability and risk of data loss resulting from increased use of remote access and removal of data from the Company's facilities. In addition, COVID-19 could negatively impact capital expenditures and overall economic activity in the impacted regions, which could impact the demand for the Company's products and services.

It is unknown whether and how the Company may be impacted if theCOVID-19 pandemic continues to persist or if there are increases in its breadth or in its severity, including as a result of the waiver of regulatory requirements or the implementation of emergency regulations to which the Company is subject. The COVID-19 pandemic poses a risk that the Company or its employees, contractors, suppliers, and other partners may be prevented from conducting business activities for an indefinite period.

Although, the Company has been deemed essential and/or has been permitted to continue operating its facilities in the states in which it cultivates, processes, manufactures, and sells cannabis during the pendency of the COVID-19 pandemic, subject to the implementation of certain restrictions on adult-use cannabis sales in both Massachusetts and Nevada, which have since been lifted, there is no assurance that the Company's operations will continue to be deemed essential and/or will continue to be permitted to operate. The Company may incur expenses or delays relating to such events outside of its control, which could have a material adverse impact on its business, operating results, financial condition and the trading price of its common shares.

***(i) Reclassification***

Certain prior year amounts have been reclassified to conform with the current year's presentation. These reclassifications adjustment had no effect on the Company's previously reported unaudited interim condensed consolidated statement of operations.

The following table summarizes the effects of reclassification adjustment on the line items within the Company's unaudited interim condensed consolidated statements of operations:

| Prior Year's Line item | Reclassified Amount | | Current Year's Line item |
|---|---|---|---|
| | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2021 | |
| Depreciation and amortization | $ 495 | $ 1,037 | Selling, general and administrative expenses |
| Depreciation and amortization | (495) | (1,037) | Depreciation and amortization |

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***(j) Revision of Prior Period Financial Statements***

During the three months ended March 31, 2022, the Company determined that it had not appropriately recorded cost of inventory as of December 31, 2021. This resulted in an overstatement of the inventory balance, accrued and other current liabilities, income tax expense and accumulated deficit as of December 31, 2021, and an understatement of costs and expenses applicable to revenues for the year ended December 31, 2021.

Based on an analysis of Accounting Standards Codification ("ASC") 250 – "Accounting Changes and Error Corrections" ("ASC 250"), Staff Accounting Bulletin 99 – "Materiality" ("SAB 99") and Staff Accounting Bulletin 108 – "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), the Company determined that these errors were immaterial to the previously issued financial statements, and as such no restatement was necessary. Correcting prior period financial statements for immaterial errors would not require previously filed reports to be amended.

The effect of the adjustments on the line items within the Company's consolidated balance sheet as of December 31, 2021 is as follows:

| | December 31, 2021 | | |
|---|---|---|---|
| | As previously reported | Adjustment | As adjusted |
| Inventories | $ 30,447 | $ (1,755) | $ 28,692 |
| Current assets | 55,401 | (1,755) | 53,646 |
| Total assets | 346,744 | (1,755) | 344,989 |
| Accrued and other current liabilities | 99,446 | (513) | 98,933 |
| Current liabilities | 285,821 | (513) | 285,308 |
| Total liabilities | 369,141 | (513) | 368,628 |
| Accumulated deficit | (800,390) | (1,242) | (801,632) |
| Total shareholders' deficit | (22,397) | (1,242) | (23,639) |
| Total liabilities and shareholders' deficit | 346,744 | (1,755) | 344,989 |

The effect of the adjustments on the line items within the Company's consolidated statement of operations as of December 31, 2021 is as follows:

| | Year Ended December 31, 2021 | | |
|---|---|---|---|
| | As previously reported | Adjustment | As adjusted |
| Costs and expenses applicable to revenues | $ (91,735) | $ (1,755) | $ (93,490) |
| Gross profit | 111,283 | (1,755) | 109,528 |
| Loss from operations | (22,025) | (1,755) | (23,780) |
| Loss from operations before income tax | (53,999) | (1,755) | (55,754) |
| Income tax expense | 22,249 | (513) | 21,736 |
| Net loss | (76,248) | (1,242) | (77,490) |
| Earnings per share | (0.44) | (0.01) | (0.45) |

The effect of the adjustments on the line items within the Company's unaudited interim condensed consolidated statements of changes in shareholders' deficit for the three and six months ended June 30, 2022 is as follows:

| | June 30, 2022 | | |
|---|---|---|---|
| | As reported | Adjustment | As adjusted |
| Accumulated deficit – Balance January 1, 2022 | $ (800,390) | $ (1,242) | $ (801,632) |
| Total Shareholders' deficit – Balance January 1, 2022 | (22,397) | (1,242) | (23,639) |

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**Note 2 – Leases**

The Company mainly leases office space and cannabis cultivation, processing and retail dispensary space. Leases with an initial term of less than 12 months are not recorded on the unaudited interim condensed consolidated balance sheets. The Company recognizes lease expense for these leases on a straight-line basis over the lease term. Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to five years or more. The Company has determined that it was reasonably certain that the renewal options on the majority of its cannabis cultivation, processing and retail dispensary space would be exercised based on operating history and knowledge, current understanding of future business needs and the level of investment in leasehold improvements, among other considerations. The incremental borrowing rate used in the calculation of the lease liability is based on the rate available to the parent company. The depreciable life of assets and leasehold improvements are limited by the expected lease term. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Certain subsidiaries of the Company rent or sublease certain office space to/from other subsidiaries of the Company. These intercompany subleases are eliminated on consolidation and have lease terms ranging from less than 1 year to 15 years.

Maturities of lease liabilities for operating leases as of June 30, 2022, were as follows:

| | Operating Leases |
|---|---|
| 2023 | $ 7,852 |
| 2024 | 7,932 |
| 2025 | 8,107 |
| 2026 | 8,137 |
| 2027 | 7,672 |
| Thereafter | 56,617 |
| Total lease payments | $ 96,317 |
| Less: interest expense | (59,308) |
| Present value of lease liabilities | $ 37,009 |
| Weighted-average remaining lease term (years) | 11.2 |
| Weighted-average discount rate | 20% |

For the three and six months ended June 30, 2022, the Company recorded operating lease expenses of $2.1 million and $4.3 million, respectively (June 30, 2021 - $2.0 million and $4.4 million, respectively), which are included in selling, general and administrative expenses on the unaudited interim condensed consolidated statements of operations.

The Company has entered into multiple sublease agreements pursuant to which it serves as lessor to the sublessees. The gross rental income and underlying lease expense are presented gross on the Company's unaudited interim condensed consolidated balance sheets. For the three and six months ended June 30, 2022, the Company recorded sublease income of $0.2 million and $0.5 million, respectively (June 30, 2021 – less than $0.1 million and $0.1 million, respectively), which is included in other income on the unaudited interim condensed consolidated statements of operations. The Company recorded impairment loss for its right-of-use assets of $Nil and $Nil, respectively for the three and six months ended June 30, 2022 (June 30, 2021 - $1.7 million and $1.7 million, respectively).

Supplemental balance sheet information related to leases are as follows:

| Balance Sheet Information | Classification | June 30, 2022 | December 31, 2021 |
|---|---|---|---|
| **Right-of-use assets** | Operating leases | **$31,955** | **$ 30,429** |
| **Lease liabilities** | | | |
| Current portion of lease liabilities | Operating leases | $ 7,852 | $ 7,342 |
| Long-term lease liabilities | Operating leases | 29,157 | 27,814 |
| **Total** | | **$37,009** | **$ 35,156** |

*(Tabular U.S. dollar amounts and shares in thousands, unless otherwise stated)*

**Note 3 – Inventories**

Inventories are comprised of the following items:

| | June 30, 2022 | December 31, 2021 (Revised) |
|---|---|---|
| Supplies | $ 5,296 | $ 6,188 |
| Raw materials | 8,132 | 5,641 |
| Work in process | 7,187 | 9,464 |
| Finished goods | 8,523 | 7,399 |
| **Total** | **$29,138** | **$ 28,692** |

Inventories are written down for any obsolescence or when the net realizable value considering future events and conditions is less than the carrying value. For the three and six months ended June 30, 2022, the Company recorded $0.2 million and $0.5 million, respectively (June 30, 2021 - $0.2 million and $0.5 million, respectively), related to spoiled inventory in costs and expenses applicable to revenues on the unaudited interim condensed consolidated statements of operations.

**Note 4 – Acquisitions**

**Acquisition of MPX New Jersey LLC**

On February 1, 2022, the Company's wholly-owned subsidiary, iAnthus New Jersey, LLC ("INJ"), closed on its acquisition of MPX New Jersey, LLC ("MPX NJ"), a New Jersey-based entity with a New Jersey medical cannabis permit. The acquisition consisted of INJ exercising its right to convert the principal balance of a loan and accrued interest owed pursuant to its loan agreement of $4.6 million into a 99% equity interest in MPX NJ. In addition, pursuant to an option agreement, INJ exercised its option to acquire the remaining 1% of MPX NJ for nominal consideration. The transaction with MPX NJ is a related party transaction due to the fact that Elizabeth Stavola, a former officer and director of the Company, is a former officer, director and majority owner of MPX NJ.

This transaction was treated as an asset acquisition under U.S. GAAP as substantially all of the fair value of the gross assets acquired were deemed to be associated with the acquired cultivation, production and retail licenses recognized as intangible assets in the table below.

The following table summarizes the allocation of the purchase price to the fair values assigned to the assets acquired and liabilities assumed:

| | |
|---|---|
| Consideration | |
| Cash | $ 1 |
| Settlement of pre-existing relationships | 19,193 |
| **Fair value of consideration** | **$19,194** |
| Assets acquired and liabilities assumed | |
| Cash | $ 5 |
| Fixed assets | 100 |
| Other non-current assets | 15 |
| Intangible assets | 19,100 |
| Accounts payable | (15) |
| Accrued and other current liabilities | (11) |
| **Net assets acquired** | **$19,194** |

The Company has determined that this acquisition is an asset acquisition under ASC 805 Business Combinations whereby the total consideration is allocated to the acquired net tangible and intangible assets based on their estimated fair values as of the closing date. The Company determined the fair value of the net identifiable assets received from the asset acquisition was a more reliable measurement of the assets exchanged as part of this asset acquisition. The Company concluded that the consideration included a nonmonetary component of $14.5 million as noncash consideration exchanged for the net identifiable assets received from MPX NJ. The related tax impact of $4.1 million was netted against this gain. As a result, the Company recorded a $10.5 million gain within other income on the unaudited interim condensed consolidated statement of operations for the three and six months ended June 30, 2022.

Operating results have been included in these unaudited interim condensed consolidated financial statements from the date of the acquisition. Supplemental pro forma financial information has not been presented as the impact was not material to the Company's unaudited interim condensed consolidated financial statements. The Company recorded acquisition costs of $0.1 million and $0.3 million within selling, general and administrative expenses on the unaudited interim condensed consolidated statement of operations for the three and six months ended June 30, 2022 (June 30, 2021 - $Nil and $Nil, respectively).

**Note 5 – Long-Term Debt**

As discussed in Note 1c, the Company consummated the Recapitalization Agreement with the Secured Lenders and the Unsecured Lenders on the Closing Date, at which time the Company issued the Shares as well as the June Secured Debentures and June Unsecured Debentures in the aggregate principal amount of $119.7 million in exchange for the full satisfaction of the Secured Notes, Unsecured Debentures and the accrued interest and accrued fee obligations in the aggregated amount of $238.2 million. Upon the consummation of the Recapitalization Transaction and as of the Closing Date, all existing Defaults under the Secured Notes and Unsecured Debentures were cured. As a result of the consummation of the Recapitalization Agreement, as of June 30, 2022, the Secured Lenders and the Unsecured Lenders own 97.25% of the Company's common shares, in the aggregate.

***Background of Recapitalization Transaction***

Since March 31, 2020, the Company had not made interest payments due to the Secured Lenders and the Unsecured Lenders. Through June 24, 2022, the Company had been in default on the Secured Notes and Unsecured Debentures, which, as of June 24, 2022, consisted of $97.5 million and $60.0 million of principal amount and $38.5 million and $11.9 million in accrued interest, respectively. In addition, as a result of the default, the Company had accrued additional fees and interest of $16.2 million in excess of the aforementioned amounts.

As a result of the March 31, 2020 default, the Board of Directors of the Company formed a special committee comprised of the Company's then five independent, non-management directors of the Company (the "Special Committee") to, among other matters, explore and consider strategic alternatives available to the Company in light of the prospective liquidity requirements of the Company, the condition of the capital markets affecting companies in the cannabis industry, and the rapid change in the state of the economy and capital markets generally caused by COVID-19, including, but not limited to:

- renegotiation of existing financing arrangements and other material contracts, including any amendments, waivers, extensions or similar agreements with the Lenders and/or stakeholders of the Company and/or its subsidiaries that the Special Committee determines are in the best interest of the Company and/or its subsidiaries;
- managing available sources of capital, including equity investments or debt financing or refinancing and the terms thereof;
- implementing the operational and financial restructuring of the Company and its subsidiaries and their respective businesses, assets and licensure and other rights; and
- implementing other potential strategic transactions.

The Special Committee engaged Canaccord Genuity Corp. as its financial advisor to assist it in analyzing various strategic alternatives to address its capital structure and liquidity challenges.

On June 22, 2020, the Company received notice from the Collateral Agent, as collateral agent holding security for the benefit of the Secured Lenders, with a demand for repayment (the "Demand Letter") under the Amended and Restated Secured Debenture Purchase Agreement dated October 10, 2019 (the "Secured Notes Purchase Agreement") of the entire principal amount of the Secured Notes, together with interest, fees, costs and other allowable charges that had accrued or might accrue in accordance with the Secured Notes Purchase Agreement and the other Transaction Agreements (as defined in the Secured Notes Purchase Agreement). The Collateral Agent also concurrently provided the Company with a Notice of Intention to Enforce Security (the "BIA Notice") under section 244 of the Bankruptcy and Insolvency Act (Canada) (the "BIA").

On July 10, 2020, the Company and certain of its subsidiaries entered into the Restructuring Support Agreement with the Secured Lenders and the Consenting Unsecured Lenders to affect the Recapitalization Transaction. Under the Restructuring Support Agreement, certain of the Secured Lenders agreed to provide interim financing in the amount of $14.7 million (the "Tranche Four Secured Notes").

Subject to compliance with the Restructuring Support Agreement, the Secured Lenders and the Consenting Unsecured Lenders agreed to forbear from further exercising any rights or remedies in connection with any Defaults.

Pursuant to the terms of the Restructuring Support Agreement, the Recapitalization Transaction would be implemented pursuant to arrangement proceedings ("Arrangement Proceedings") commenced under the British Columbia Business Corporations Act, or, only if necessary, the Companies' Creditors Arrangement Act (Canada) ("CCAA"). Completion of the Recapitalization Transaction through the Arrangement Proceedings was subject to, among other things, requisite stakeholder approval of the Plan of Arrangement.

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Consummation of the Recapitalization Transaction through the Plan of Arrangement was subject to certain conditions, including approval of the Secured Lenders, Unsecured Lenders and existing holders of the Company's common shares, warrants and options, which was obtained; approval of the Plan of Arrangement by the Court, which was obtained; and the receipt of all approvals by state-level regulators and the Canadian Securities Exchange (collectively, the "Requisite Approvals"). All Requisite Approvals required to consummate the Recapitalization Transaction were satisfied, conditioned, or waived by the Company, Secured Lenders and Consenting Unsecured Lenders, for purposes of closing the Recapitalization Transaction on June 24, 2022. The Company is working to finalize any outstanding Requisite Approvals, including state regulatory approval in New Jersey and New York.

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The following table summarizes long term debt outstanding as of June 30, 2022.

| | Secured Notes[(1)] | March 2019 Debentures | May 2019 Debentures | June Secured Debentures | Additional Secured Debentures | June Unsecured Debentures | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **As of January 1, 2022** | **$ 134,902** | **$ 33,138** | **$ 24,033** | **$ —** | **—** | **—** | **$1,307** | **$ 193,380** |
| Fair value of financial liabilities issued | 1,526 | — | — | 84,681 | 25,033 | 14,880 | — | 126,120 |
| Accretion of balance | 382 | 730 | 367 | 46 | — | 16 | — | 1,541 |
| Debt extinguishment | (123,675) | (33,868) | (24,400) | — | — | — | — | (181,943) |
| Repayment | — | — | — | — | — | — | (31) | (31) |
| **As of June 30, 2022** | **$ 13,135** | **$ —** | **$ —** | **$ 84,727** | **$ 25,033** | **$ 14,896** | **$1,276** | **$ 139,067** |

(1) This amount includes the Company's obligation to pay an exit fee of $10.3 million that accrues interest at a rate of13.0% per annum (the "Exit Fee") under the Secured Notes.

***Accounting for the Recapitalization Transaction***

On June 24, the Company completed its previously announced Recapitalization Transaction pursuant to the terms of the Restructuring Support Agreement. The Recapitalization Transaction closed pursuant to the terms of the Plan of Arrangement under the Business Corporations Act (British Columbia) approved by the Supreme Court of British Columbia.

In accordance with debt extinguishment accounting rules outlined in ASC470-50, Debt-Modifications and Extinguishments, ("ASC 470") the Company recorded a loss on extinguishment of debt of $316.6 million for the three and six months ended June 30, 2022 in the condensed consolidated statement of operations related to the restructuring of debt. In connection with the extinguishment in the aggregated amount of $238.2 million, the Company issued new debt in the principal amount of $119.7 million, which recorded at fair value of $99.4 million and 6,072,580 common shares in the amount of $455.4 million issued which were valued based upon the closing price of the Company's common shares on June 24, 2022.

On June 24, 2022, the Company fully amortized the debt discount costs related to theold debt that were extinguished. As of June 30, 2022, the total and unamortized debt discount costs related to new debt were $20.3 million and $20.3 million, respectively (December 31, 2021 - $30.3 million and $3.2 million, respectively). As of June 30, 2022, the total and unamortized debt issuance costs related to debts that were not part of the Recapitalization Transaction were $0.7 million and $0.2 million, respectively (December 31, 2021—$7.7 million and $2.5 million, respectively).

As of June 30, 2022, the total interest accrued on both current and long-term debt was $Nil. As of June 24, 2022, the total accrued interest of $56.3 million was extinguished and settled in full as part of the Recapitalization Transaction (December 31, 2021—$45.6 million).

***(a) Secured Notes***

***Tranche One***

On May 14, 2018, the Company issued $40.0 million secured notes (the "Tranche One Secured Notes") with a maturity date ofMay 14, 2021. The principal amount of such notes along with accrued interest at the default rate of16.0% per annum were extinguished on June 24, 2022 in connection with the closing of the Recapitalization Transaction. Due to the conversion price of $3.08 being less than the Company's closing stock price on the date of issuance, this gave rise to a beneficial conversion feature valued at $7.9 million. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital on the Closing Date. The discount to the Tranche One Secured Notes was being fully amortized to accretion expense by the original maturity date of May 14, 2021. For the three and six months ended June 30, 2022, the amount of amortization recorded in accretion expense was $Nil and $Nil, respectively (June 30, 2021—$0.3 million and $1.0 million, respectively), on the unaudited interim condensed consolidated statement of operations. The terms also contain a financial covenant requiring the Company's asset value to be1.75 times the total net debt at each quarter end and requires that the Company maintain a minimum cash balance of $1.0 million while the Tranche One Secured Notes remained outstanding (the "market value test").

For the three and six months ended June 30, 2022, interest expense of $1.6 million and $3.2 million, respectively (June 30, 2021—$1.7 million and $3.3 million, respectively), and accretion expense of $Nil and $Nil, respectively (June 30, 2021—$1.1 million and $3.4 million, respectively), were recorded on the unaudited interim condensed consolidated statements of operations.

As of June 24, 2022, immediately prior to the consummation of the Recapitalization Transaction, the Company was not in compliance with the market value test, and the Company did not make interest payments, and therefore was in breach of a financial covenant with respect to the Tranche One Secured Notes, Tranche Two Secured Notes (as defined herein), and Tranche Three Secured Notes (as defined herein).

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Furthermore, the Company was in default on its Secured Notes as of March 31, 2020, and as a result, an event of default occurred on April 4, 2020. This default was triggered on the Company's long-term debt, which as of June 24, 2022, consisted of $97.5 million and $60.0 million of principal amount and $38.5 million and $11.9 million in accrued interest on the Secured Notes and the Unsecured Debentures, respectively. As a result of the default and through June 24, 2022, the Company classified the Tranche One Secured Notes, Tranche Two Secured Notes, and Tranche Three Secured Notes as current liabilities on the unaudited interim condensed consolidated balance sheets. As of June 24, 2022, this debt, related accrued interest and fees were fully satisfied pursuant to the terms of the Restructuring Support Agreement and no default existed with respect to the Tranche One Secured Notes, Tranche Two Secured Notes, and Tranche Three Secured Notes.

For the three and six months ended June 30, 2022, interest expense of $0.4 million and $0.8 million, respectively (June 30, 2021 - $0.4 million and $0.8 million, respectively) was recorded in relation to the Exit Fee on the unaudited interim condensed consolidated statements of operations. As of June 30, 2022, the aggregate Exit Fee obligation of $16.2 million was satisfied in connection with the closing of the Recapitalization Transaction (June 30, 2021- $14.6 million), which was comprised of an aggregate of $10.3 million in principal amount and $5.9 million in accrued interest (June 30, 2021—$10.3 million and $4.3 million, respectively).

***Tranche Two***

On September 30, 2019, the Company issued an additional $20.0 million of secured notes (the "Tranche Two Secured Notes"). The Tranche Two Secured Notes accrued interest at 13.0% per annum and had an original maturity date of May 14, 2021. The principal amount of such notes along with accrued interest at the default rate of 16.0% per annum were extinguished on June 24, 2022 in connection with the closing of the Recapitalization Transaction.

For the three and six months ended June 30, 2022, interest expense of $0.8 million and $1.6 million, respectively (June 30, 2021 - $0.8 million and $1.6 million, respectively), and accretion expense of $Nil and $Nil, respectively (June 30, 2021 - $0.2 million and $0.7 million, respectively), were recorded on the unaudited interim condensed consolidated statements of operations.

All terms, restrictions and financial covenants applicable to the Tranche One Secured Notes were also applicable to the Tranche Two Secured Notes. As of June 24, 2022, this debt, related accrued interest and fees were fully satisfied pursuant to the terms of the Restructuring Support Agreement and no default existed with respect to the Tranche Two Secured Notes.

***Tranche Three***

On December 20, 2019, the Company issued an additional $36.2 million of secured notes (the "Tranche Three Secured Notes"). The Tranche Three Secured Notes accrued interest at 13.0% per annum and had an original maturity date of May 14, 2021. The principal amount of such notes along with accrued interest at the default rate of 16.0% per annum were extinguished on June 24, 2022 in connection with the closing of the Recapitalization Transaction.

For the three and six months ended June 30, 2022, interest expense of $1.4 million and $2.8 million, respectively (June 30, 2021 - $1.5 million and $2.9 million, respectively), and accretion expense of $Nil and $Nil, respectively (June 30, 2021 - $0.5 million and $1.6 million, respectively), were recorded on the unaudited interim condensed consolidated statements of operations.

All terms, restrictions and financial covenants applicable to the Tranche One Secured Notes and Tranche Two Secured Notes were also applicable to Tranche Three Secured Notes. As of June 24, 2022, this debt, related accrued interest and fees were fully satisfied pursuant to the terms of the Restructuring Support Agreement and no default existed with respect to the Tranche Two Secured Notes.

***Tranche Four***

On July 13, 2020, as part of the Recapitalization Transaction, the Company issued an additional $14.7 million as Tranche Four Secured Notes which accrued interest at 8.0% per annum and had an original maturity date of July 13, 2025. On June 24, 2022 the terms of the Tranche Four Secured Notes were materially modified pursuant to the Restructuring Support Agreement and as such, were considered to be extinguished in connection with the closing of the Recapitalization Transaction.

For the three and six months ended June 30, 2022, interest expense of $0.3 million and $0.7 million, respectively (June 30, 2021 - $0.3 million and $0.6 million, respectively), and accretion expense of $0.1 million and $0.1 million, respectively (June 30, 2021 - $0.1 million and $0.2 million, respectively), were recorded on the unaudited interim condensed consolidated statements of operations.

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***iAnthus New Jersey, LLC Senior Secured Bridge Notes***

On February 2, 2021, INJ issued an aggregate of $11.0 million of senior secured bridge notes ("Senior Secured Bridge Notes") which mature on the earlier of (i) February 2, 2023, (ii) the date on which the Company closes a Qualified Financing (as defined below) and (iii) such earlier date that the principal amount may become due and payable pursuant to the terms of such notes. The Senior Secured Bridge Notes initially accrued interest at a rate of 14.0% per annum, decreasing to 8.0% upon the closing of the Recapitalization Transaction (increasing to 25.0% per annum in the event of default). "Qualified Financing" means a transaction or series of related transactions resulting in net proceeds to the Company of not less than $10 million from the subscription of the Company's securities, including, but not limited to, a private placement or rights offering.

The host debt, classified as a liability, was recognized at the fair value of $10.3 million, net of issuance costs of $0.7 million.

Interest is to be paid in kind by adding the interest accrued on the principal amount on the last day of each fiscal quarter (the first such interest payment date being March 31, 2021) and such amount thereafter becoming part of the principal amount and will accrue interest. Interest paid in kind will be payable on the date when all of the principal amount is due and payable.

For the three and six months ended June 30, 2022, interest expense of $0.4 million and $0.9 million, respectively (June 30, 2021 - $0.4 million and $0.6 million, respectively), and accretion expense of $0.1 million and $0.2 million, respectively (June 30, 2021 - $0.1 million and $0.1 million, respectively), were recorded on the unaudited interim condensed consolidated statements of operations. As of June 30, 2022, the Company held $1.3 million (December 31, 2021 - $3.3 million) of restricted cash in escrow from the Senior Secured Bridge Notes. Refer to Note 13 for further discussion.

The Senior Secured Bridge Notes are secured by a security interest in certain assets of INJ. The Company provided a guarantee in respect of all of the obligations of INJ under the Senior Secured Bridge Notes, and the Company is in compliance with the terms of the Senior Secured Bridge Notes as of June 30, 2022. The Senior Secured Bridge Notes are classified as current liabilities on the unaudited interim condensed consolidated balance sheets as they are due on February 2, 2023.

Certain of the Secured Lenders, including Gotham Green Fund II, L.P., Gotham Green Fund II (Q), L.P., Oasis Investments II Master Fund LTD., Senvest Global (KY), LP, and Senvest Master Fund, LP, held greater than 10.0% of the outstanding common shares of the Company upon closing of the Recapitalization Transaction. As principal owners of the Company, these lenders are considered to be related parties.

***(b) March 2019 Debentures***

On March 18, 2019, the Company completed a private placement of $35.0 million of unsecured convertible debentures (the "March 2019 Debentures") and corresponding warrants to purchase 2,177,291 common shares of the Company at an exercise price of $6.43 per share ("March 2019 Equity Warrants"). All of the March 2019 Equity Warrants expired on March 15, 2022. The March 2019 Debentures accrued interest at a rate of 8.0%, per annum, payable quarterly on the last business day of each fiscal quarter, beginning on March 31, 2019. Interest was to be paid in cash, shares, or a combination of cash and shares, up to 50.0%, at the Company's election. The March 2019 Debentures would have matured on March 15, 2023; however, on June 24, 2022, the outstanding principal of March 2019 Debentures along with related accrued interest and applicable fees were extinguished as part of the closing of the Recapitalization Transaction.

For the three and six months ended June 30, 2022, interest expense of $0.7 million and $1.4 million, respectively (June 30, 2021 - $0.7 million and $1.4 million, respectively), and accretion expense of $0.4 million and $0.7 million, respectively (June 30, 2021 - $0.4 million and $0.7 million, respectively), were recorded on the unaudited interim condensed consolidated statements of operations.

The terms of the March 2019 Debentures imposed certain restrictions on the Company's operating and financing activities, including certain restrictions on the Company's ability to incur certain additional indebtedness at the subsidiary level. As of June 24, 2022, immediately prior to the consummation of the Recapitalization Transaction, the Company was in default on its interest obligations to the holders of the Secured Notes. This default triggered a cross-default on its interest obligations to the holders of the March 2019 Debentures. As a result of this default, the Company classified the debt as a current liability on the unaudited interim condensed consolidated balance sheets as the Unsecured Debentures were due on demand. As of June 24, 2022, this debt, related accrued interest and fees were fully satisfied pursuant to the terms of the Restructuring Support Agreement and no default existed with respect to the March 2019 Debentures.

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***(c) May 2019 Debentures***

On May 2, 2019, the Company completed a private placement of $25.0 million of unsecured convertible debentures (the "May 2019 Debentures") and corresponding warrants to purchase 1,555,207 common shares of the Company at an exercise price of $6.43 per common share ("May 2019 Equity Warrants"). All of the May 2019 Equity Warrants expired on March 15, 2022. The May 2019 Debentures accrued interest at a rate of 8.0%, per annum, payable quarterly on the last business day of each fiscal quarter, beginning on June 30, 2019. Interest was to be paid in cash, shares, or a combination of cash and shares, up to 50.0%, at the Company's election. The May 2019 Debentures would have matured on March 15, 2023; however, on June 24, 2022, the outstanding principal of May 2019 Debentures along with related accrued interest and applicable fees were extinguished as part of the closing of the Recapitalization Transaction.

For the three and six months ended June 30, 2022, interest expense of $0.5 million and $1.0 million, respectively (June 30, 2021 - $0.5 million and $1.0 million, respectively), and accretion expense of $0.2 million and $0.4 million, respectively (June 30, 2021 - $0.2 million and $0.4 million, respectively), were recorded on the unaudited interim condensed consolidated statements of operations.

The terms of the May 2019 Debentures imposed certain restrictions on the Company's operating and financing activities, including certain restrictions on the Company's ability to incur certain additional indebtedness at the subsidiary level. As of June 24, 2022, immediately prior to the consummation of the Recapitalization Transaction, the Company was in default on its interest obligations to the holders of the Secured Notes. This default triggered a cross-default on its interest obligations to the holders of the March 2019 Debentures. Further, as a result of this default, the Company classified the debt as a current liability on the unaudited interim condensed consolidated balance sheets as the Unsecured Debentures were due on demand. As of June 24, 2022, this debt, related accrued interest and fees were fully satisfied pursuant to the terms of the Restructuring Support Agreement and no default existed with respect to the May 2019 Debentures.

***(d) June Secured Debentures***

On June 24, 2022 in connection with the closing of Recapitalization Transaction, the Company entered into the Secured DPA, pursuant to which the Company issued the June Secured Debentures in the aggregate principal amount of $99.7 million which debentures accrue interest at the rate of 8.0% per annum increasing to 11.0% per annum upon the occurrence of an Event of Default (as defined in the Secured DPA", with a maturity date of June 24, 2027. The June Secured Debentures may be prepaid on a pro rata basis from and after the third anniversary of the Closing Date of the Recapitalization Transaction upon prior written notice to the New Secured Lenders without premium or penalty.

The host debt, classified as a liability, was recognized at the fair value of $84.5 million.

Interest is to be paid in kind by adding the interest accrued on the principal amount on the last day of each fiscal quarter (the first such interest payment date being June 30, 2022) and such amount thereafter becoming part of the principal amount, which will accrue additional interest. Interest paid in kind will be payable on the date when all of the principal amount is due and payable.

For the three and six months ended June 30, 2022, interest expense of $0.1 million and $0.1 million, respectively (June 30, 2021 - $Nil and $Nil, respectively), and accretion expense of less than $0.1 million and $0.1 million, respectively (June 30, 2021 - $Nil and $Nil, respectively), were recorded on the unaudited interim condensed consolidated statements of operations.

The terms of the Secured DPA impose certain restrictions on the Company's operating and financing activities, including certain restrictions on the Company's ability to: incur certain additional indebtedness; grant liens; make certain dividends and other payment restrictions affecting the Company's subsidiaries; issue shares or convertible securities; and sell certain assets. The June Secured Debentures are secured by all current and future assets of the Company and ICM. The terms of the Secured DPAs do not have any financial covenants or market value test and ICM is in compliance with the terms of the June Secured Debentures as of June 30, 2022. The June Secured Debentures are classified as long-term liabilities on the unaudited interim condensed consolidated balance sheets.

Certain of the New Secured Lenders that hold the June Secured Debentures, including Gotham Green Fund 1, L.P., Gotham Green Fund 1 (Q), L.P., Gotham Green Fund II, L.P., Gotham Green Fund II (Q), Gotham Green Credit Partners SPV 1, L.P., Gotham Green Partners SPV V, L.P., L.P., collectively held greater than 10.0% of the outstanding common shares of the Company upon the closing of the Recapitalization Transaction. As principal owners of the Company, certain of the New Secured Lenders are considered to be related parties.

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***(e) June Unsecured Debentures***

On June 24, 2022 in connection with the closing of the Recapitalization Transaction, the Company entered into the Unsecured DPA, pursuant to which the Company issued June Unsecured Debentures in the aggregate principal amount of $20.0 million which accrue interest at the rate of 8.0% per annum increasing to 11.0% per annum upon the occurrence of an Event of Default (as defined in the Unsecured DPA), with maturity date of June 24, 2027. The June Unsecured Debentures may be prepaid on a pro rata basis from and after the third anniversary of the Closing Date of the Recapitalization Transaction upon prior written notice to the Unsecured Lender without premium or penalty.

The host debt, classified as a liability, was recognized at the fair value of $14.9 million.

Interest is to be paid in kind by adding the interest accrued on the principal amount on the last day of each fiscal quarter (the first such interest payment date being June 30, 2022) and such amount thereafter becoming part of the principal amount, which will accrue additional interest. Interest paid in kind will be payable on the date when all of the principal amount is due and payable.

For the three and six months ended June 30, 2022, interest expense of less than $0.1 million and less than $0.1 million, respectively (June 30, 2021 - $Nil and $Nil, respectively), and accretion expense of less than $0.1 million and $0.1 million, respectively (June 30, 2021 - $Nil and $Nil, respectively), were recorded on the unaudited interim condensed consolidated statements of operations.

The terms of the Unsecured DPA impose certain restrictions on the Company's operating and financing activities, including certain restrictions on the Company's ability to: incur certain additional indebtedness; grant liens; make certain dividends and other payment restrictions affecting the Company's subsidiaries; issue shares or convertible securities; and sell certain assets. The terms of the Unsecured DPA does not have any financial covenants or market value test, and ICM is in compliance with the terms of the June Unsecured Debentures as of June 30, 2022. The June Unsecured Debentures are classified as long-term liabilities on the unaudited interim condensed consolidated balance sheets.

Certain of the Secured Lenders and Consenting Unsecured Lenders, including Gotham Green Fund 1, L.P., Gotham Green Fund 1 (Q), L.P., Gotham Green Fund II, L.P., Gotham Green Fund II (Q), L.P., Gotham Green Credit Partners SPV 1, L.P., Gotham Green Partners SPV V, L.P., Oasis Investments II Master Fund LTD., Senvest Global (KY), LP, and Senvest Master Fund, LP, held greater tha n 10.0% of the outstanding common shares of the Company upon the closing of the Recapitalization Transaction. As principal owners of the Company, certain of the Consenting Unsecured Lenders are considered to be related parties.

***(f) Additional Secured Debentures***

Pursuant to the terms of the Secured DPA, ICM issued the Additional Secured Debentures on June 24, 2022 in the aggregate principal amount of $25.0 million which accrue interest at the rate of 8.0% per annum increasing to 11.0% per annum upon the occurrence of an Event of Default (as defined in the Secured DPA), with maturity date of June 24, 2027.

The host debt, classified as a liability, was recognized at the fair value of $25.0 million.

Interest is to be paid in kind by adding the interest accrued on the principal amount on the last day of each fiscal quarter (the first such interest payment date being June 30, 2022) and such amount thereafter becoming part of the principal amount, which will accrue additional interest. Interest paid in kind will be payable on the date when all of the principal amount is due and payable.

For the three and six months ended June 30, 2022, interest expense of less than $0.1 million and less than $0.1 million, respectively (June 30, 2021 - $Nil and $Nil, respectively), was recorded on the unaudited interim condensed consolidated statements of operations.

The terms of the Secured DPA impose certain restrictions on the Company's operating and financing activities, including certain restrictions on the Company's ability to: incur certain additional indebtedness; grant liens; make certain dividends and other payment restrictions affecting the Company's subsidiaries; issue shares or convertible securities; and sell certain assets. The Additional Secured Debentures are secured by all current and future assets of the Company and ICM. The terms of the Secured DPAs do not have any financial covenants or market value test, and ICM is in compliance with the terms of the Additional Secured Debentures as of June 30, 2022. The Additional Secured Debentures are classified as long-term liabilities on the unaudited interim condensed consolidated balance sheets.

Certain of the New Secured Lenders, including Gotham Green Fund 1, L.P., Gotham Green Fund 1 (Q), L.P., Gotham Green Fund II, L.P., Gotham Green Fund II (Q), L.P., Oasis Investments II Master Fund LTD., Senvest Global (KY), LP, and Senvest Master Fund, LP, held greater than 10% of the outstanding common shares of the Company upon the closing of the Recapitalization Transaction. As principal owners of the Company, certain of the New Secured Lenders are considered to be related parties.

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**Note 6 – Share Capital**

***(a) Share Capital***

Authorized: Unlimited common shares. The shares have no par value.

The Company's common shares are voting and dividend-paying. The following is a summary of the common share issuances for the three and six months ended June 30, 2022:

- An aggregate of 6,072,580 common shares were issued to the Secured Lenders and Unsecured Lenders on June 24, 2022 in connection with the closing of the Recapitalization Transaction.
- There were no common share issuances for the three and six months ended June 30, 2021.

***(b) Warrants***

The following table summarizes certain information in respect of the Company's warrants:

| | June 30, 2022 | |
|---|---|---|
| | Units | Weighted Average Exercise Price (C$) |
| Warrants outstanding, beginning | 22,640 | $ 3.56 |
| Granted | — | — |
| Forfeited | (17,955) | 2.52 |
| Expired | (4,685) | 7.53 |
| Warrants outstanding, ending | — | $ — |

As of June 30, 2022 and December 31, 2021, warrants classified as derivative liabilities on the unaudited interim condensed consolidated balance sheets were revalued with the following inputs:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Risk-free interest rate | — | 0.9% |
| Expected dividend yield | — | 0.0% |
| Expected volatility | — | 93.7 - 297.1% |
| Expected life | — | 0.9 years |

The Company uses an expected volatility based on its historical trading data.

As per the terms of the Restructuring Support Agreement, all outstanding warrants were forfeited as of the Closing Date of the Recapitalization Transaction, and warrants classified as derivative liabilities were revalued to $Nil as of June 30, 2022 (December 31, 2021 – less than $0.1 million). As a result of the revaluation, the Company recognized a gain of less than $0.1 million and $0.1 million for the three and six months ended June 30, 2022, respectively (June 30, 2021 – gain of $0.1 million and $0.1 million, respectively), on the unaudited interim condensed consolidated statements of operations.

Full share equivalent warrants outstanding and exercisable are as follows:

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Year of expiration | Number Outstanding | Weighted Average Exercise Price (C$) | Number Outstanding | Weighted Average Exercise Price (C$) |
| 2022 | — | — | 20,855 | 3.47 |
| 2023 | — | — | 1,785 | 4.57 |
| Warrants outstanding | — | $ — | 22,640 | $ 3.56 |

*(Tabular U.S. dollar amounts and shares in thousands, unless otherwise stated)*

***(c) Potentially Dilutive Securities***

The following table summarizes potentially dilutive securities, and the resulting common share equivalents outstanding as of June 30, 2022 and December 31, 2021:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Common share options | — | 10,504 |
| Restricted stock units | 320,165 | — |
| Warrants | — | 22,640 |
| Secured notes | — | 46,458 |
| Debentures | — | 10,135 |
| MPX dilutive instruments[(1)] | 408 | 408 |
| **Total** | **320,573** | **90,145** |

(1) Prior to the acquisition of MPX Bioceutical Corporation ("MPX") on February 5, 2019 (the "MPX Acquisition"), MPX had instruments outstanding that were potentially dilutive and as a result of the MPX Acquisition, the Company assumed certain of these instruments.

All outstanding warrants and other potentially dilutive securities related to debt were forfeited/cancelled as part of the closing of the Recapitalization Transaction pursuant to the terms of the Restructuring Support Agreement.

***(d) Stock Options***

The following table summarizes certain information in respect of option activity during the period:

| | June 30, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | Units | Weighted Average Exercise Price (C$) | Weighted Average Contractual Life | Units | Weighted Average Exercise Price (C$) | Weighted Average Contractual Life |
| Options outstanding, beginning | 10,504 | $ 4.95 | — | 11,510 | $ 4.86 | — |
| Granted | — | — | — | — | — | — |
| Exercised | — | — | — | — | — | — |
| Cancellations | (7,111) | 4.70 | — | — | — | — |
| Forfeitures | (3,152) | 5.85 | — | — | — | — |
| Expirations | (241) | 1.21 | — | (1,006) | 3.96 | — |
| Options outstanding, ending | **—** | **$ —** | **—** | **10,504** | **$ 4.95** | **6.24** |

The related share-based compensation expense for the three and six months ended June 30, 2022 was $0.3 million and $1.8 million, respectively (June 30, 2021 - $1.6 million and $3.3 million, respectively), and is presented in selling, general and administrative expenses on the unaudited interim condensed consolidated statements of operations.

Upon the closing of the Recapitalization Transaction, all issued and outstanding stock options were cancelled. As of June 30, 2022, the unrecognized compensation cost related to stock options was $Nil (June 30, 2021 - $5.2 million).

***(e) Restricted Stock Units***

On December 31, 2021, the Board approved a long-term incentive program, pursuant to which, on July 26, 2022, the Company issued certain employees of the Company and its subsidiaries, restricted stock units ("RSUs"), under the Company's Amended and Restated Omnibus Incentive Plan dated October 15, 2018. RSUs represent a right to receive a single common share that is both non-transferable and forfeitable until certain conditions are satisfied. The allocation of RSUs was contingent on the closing of the Recapitalization Transaction and was subject to approval of the Canadian Securities Exchange and the Board.

*(Tabular U.S. dollar amounts and shares in thousands, unless otherwise stated)*

On December 31, 2021 and June 23, 2022, the Board approved the allocations of RSUs to Board members, directors, officers, and key employees of the Company. The RSUs granted by the Company vest upon the satisfaction of both a service-based condition of three years and a liquidity condition, the latter of which was not satisfied until the closing of the Recapitalization Transaction. As the liquidity condition was not satisfied until the closing of the Recapitalization Transaction, in prior periods, the Company had not recorded any expense related to the grant of RSUs. Share-based compensation expense in relation to the RSUs is recognized using the graded vesting method, in which compensation costs for each vesting tranche is recognized ratably from the service inception date to the vesting date for that tranche. The fair value of the RSUs is determined using the Company's closing stock price on the grant date.

Certain RSU recipients held stock options which were cancelled upon the closing of the Recapitalization Transaction (the "Original Awards"). The RSUs granted to these employees have been treated as replacement awards (the "Replacement Awards") and are accounted for as a modification to the Original Awards. As the fair value of the Original Awards was $ Nil on the modification dates, the incremental compensation cost recognized is equal to the Replacement Award's fair value on the modification date, which shall be recognized over the remaining requisite service period. As of June 30, 2022, unrecognized compensation costs related to the Original Awards was $Nil (June 30, 2021 - $5.4 million).

During the three and six months ended June 30, 2022, upon the closing of the Recapitalization Transaction, the Company recognized $21.0 million and $21.0 million of share-based compensation expense associated with the RSUs, respectively, that vested in connection with the Recapitalization Transaction (June 30, 2020—$Nil and $Nil). Share-based compensation expense is presented in selling, general and administrative expenses on the unaudited interim condensed consolidated statements of operations.

As of June 30, 2022, there was approximately $8.6 million of total unrecognized compensation cost related to unvested restricted stock units which is expected to be recognized over a weighted-average service period of 1.34 years.

The following table summarizes certain information in respect of RSU activity during the period:

| | June 30, 2022 | |
|---|---|---|
| | **Units** | **Weighted Average Grant Price (C$)** |
| Unvested balance, beginning | — | $ — |
| Granted | 390,802 | 0.12 |
| Vested | (101,514) | 0.12 |
| Forfeited | (70,637) | 0.12 |
| Unvested balance, ending | **218,651** | **$ 0.12** |

**Note 7 – Income Taxes**

The following table summarizes the Company's income tax expense and effective tax rates for the three and six months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Loss before income taxes | $ (368,171) | $ (7,372) | $ (373,398) | $ (19,533) |
| Income tax expense | 5,391 | 7,884 | 10,266 | 15,175 |
| Effective tax rate | (1.5)% | (106.9)% | (2.7)% | (77.7)% |

The effective tax rate may vary significantly from period to period and can be influenced by many factors. These factors include, but are not limited to, changes to the statutory rates in the jurisdictions where the Company has operations and changes in the valuation of deferred tax assets and liabilities. The difference between the effective tax rate and the federal statutory rate of 21.0% primarily relates to certain non-deductible items, state and local income taxes and the valuation allowance for deferred tax assets of non-cultivator entities.

In general, under Section 382 of the U.S. Internal Revenue Code of 1986, as amended, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating loss carryforwards ("NOLs") to offset future taxable income. Similarly, where control of a corporation has been acquired by a person or group of persons, subsection 111(5) of the Income Tax Act (Canada), and equivalent provincial income tax legislation restrict the corporation's ability to carry forward non-capital losses from preceding taxation years. Our existing NOLs may be subject to limitations arising from the Company's ownership changes. The Company is currently in the process of reviewing any potential limitation on the use of its net operating losses or non-capital losses as a result of the Recapitalization Transaction which closed on June 24, 2022.

The Internal Revenue Service filed Notices of Federal Tax Lien against GHHIA Management Inc. ("GHHIA") and Mayflower Medicinals Inc. ("Mayflower") on February 23, 2022 and April 21, 2022, respectively. The liens are for corporate income tax, penalty and interest owed by GHHIA for its tax year ended December 31, 2020 and Mayflower for its tax years ended December 31, 2019 and December 31, 2020. The Company is actively working to resolve these matters with the Internal Revenue Service.

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**Note 8 – Segment Information**

The below table presents revenues by segment for the three and six months ended June 30, 2022 and 2021:

***Reportable Segments***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Revenues** | | | | |
| Eastern Region | $ 25,760 | $ 34,724 | $ 50,545 | $ 67,780 |
| Western Region | 17,429 | 19,103 | 35,145 | 37,406 |
| Other[(1)] | 292 | 401 | 581 | 847 |
| **Total** | **$ 43,481** | **$ 54,228** | **$ 86,271** | **$ 106,033** |
| **Gross profit (loss)** | | | | |
| Eastern Region | $ 14,269 | $ 24,402 | $ 30,337 | $ 45,565 |
| Western Region | 5,212 | 7,004 | 11,623 | 15,583 |
| Other | 187 | (95) | 200 | (116) |
| **Total** | **$ 19,668** | **$ 31,311** | **$ 42,160** | **$ 61,032** |
| **Depreciation and amortization** | | | | |
| Eastern Region | $ 3,678 | $ 6,457 | $ 8,936 | $ 12,333 |
| Western Region | 2,998 | 605 | 6,010 | 1,362 |
| Other | 134 | 202 | 270 | 401 |
| **Total** | **$ 6,810** | **$ 7,264** | **$ 15,216** | **$ 14,096** |
| **Asset impairments and write-downs** | | | | |
| Eastern Region | $ 7 | $ — | $ 76 | $ 259 |
| Western Region | — | — | — | — |
| Other | 147 | 1,623 | 135 | 1,623 |
| **Total** | **$ 154** | **$ 1,623** | **$ 211** | **$ 1,882** |
| **Net income (loss)** | | | | |
| Eastern Region | $ (2,641) | $ 2,746 | $ 4,686 | $ 3,482 |
| Western Region | (2,022) | 668 | (2,934) | 3,167 |
| Other | (368,899) | (18,670) | (385,416) | (41,357) |
| **Total** | **$ (373,562)** | **$ (15,256)** | **$ (383,664)** | **$ (34,708)** |
| **Purchase of property, plant and equipment** | | | | |
| Eastern Region | $ 2,818 | $ 4,992 | $ 4,038 | $ 9,523 |
| Western Region | 340 | 64 | 691 | 68 |
| Other | — | 16 | 2 | 20 |
| **Total** | **$ 3,158** | **$ 5,072** | **$ 4,731** | **$ 9,611** |
| **Purchase of intangibles** | | | | |
| Eastern Region | $ — | $ 31 | $ — | $ 31 |
| Western Region | — | — | — | — |
| Other | 9 | — | 70 | — |
| **Total** | **$ 9** | **$ 31** | **$ 70** | **$ 31** |

(1) Revenues from segments below the quantitative thresholds are attributable to an operating segment of the Company that includes revenue from the sale of CBD products throughout the United States. This segment has never met any of the quantitative thresholds for determining reportable segments nor does it meet the qualitative criteria for aggregation with the Company's reportable segments.

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| | June 30, 2022 | December 31, 2021 (Revised) |
|---|---|---|
| **Assets** | | |
| Eastern Region | $234,807 | $ 222,350 |
| Western Region | 95,157 | 106,485 |
| Other | 34,331 | 16,154 |
| **Total** | **$364,295** | **$ 344,989** |

***Major Customers***

Major customers are defined as customers that each individually accounted for greater than10.0% of the Company's annual revenues. For the three and six months ended June 30, 2022 and 2021, no sales were made to any one customer that represented in excess of 10.0% of the Company's total revenues.

***Geographic Information***

As of June 30, 2022 and 2021, substantially all of the Company's assets were located in the United States and all of the Company's revenues were earned in the United States.

***Disaggregated Revenues***

The Company disaggregates revenues into categories that depict how the nature, amount, timing and uncertainty of the revenues and cashflows are affected by economic factors. For the three and six months ended June 30, 2022 and 2021, the Company disaggregated its revenues as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Revenue** | | | | |
| iAnthus branded products | $ 23,178 | $ 32,298 | $ 45,336 | $ 63,480 |
| Third party branded products | 18,280 | 16,394 | 35,427 | 31,601 |
| Wholesale/bulk/other products | 2,023 | 5,536 | 5,508 | 10,952 |
| **Total** | **$ 43,481** | **$ 54,228** | **$ 86,271** | **$ 106,033** |

**Note 9 – Financial Instruments**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. The Company characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The levels of the fair value hierarchy are as follows:

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying values of cash, receivables, payables and accrued liabilities approximate their fair values because of the short-term nature of these financial instruments. Balances due to and due from related parties have no terms and are payable on demand, thus are also considered current and short-term in nature, hence carrying value approximates fair value.

The component of the Company's long-term debt attributed to the host liability is recorded at amortized cost. Investments in debt instruments that are held to maturity are also recorded at amortized cost.

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The following table summarizes the fair value hierarchy for the Company's financial assets and financial liabilities that arere-measured at their fair values periodically:

| | June 30, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial Assets** | | | | | | | | |
| Long term investments - other[1] | $ 312 | $ — | $ — | $312 | $ 568 | $ — | $ — | $568 |
| **Financial Liabilities** | | | | | | | | |
| Derivative liabilities | $ — | $ — | $ — | $— | $ — | $ — | $ 16 | $ 16 |

(1) Long-term investments – other are included in the investments balance on the unaudited interim condensed consolidated balance sheets.

There were no transfers between Level 1, Level 2, and Level 3 within the fair value hierarchy during the three and six months ended June 30, 2022 and 2021.

The Company's other investment as of June 30, 2022 is considered to be a Level 1 instrument because it is comprised of shares of a public company, and there is an active market for the shares and observable market data and inputs available.

All Level 1 investments are comprised of equity investments which arere-measured at fair value using quoted market prices.

The following table summarizes the changes in Level 1 financial assets:

| | Financial Assets |
|---|---|
| **Balance as of December 31, 2021** | **$ 568** |
| Revaluations on Level 1 instruments | (256) |
| **Balance as of June 30, 2022** | **$ 312** |

The derivative liabilities related to the convertible debt instruments and freestanding warrants are recorded at fair value estimated using the Black-Scholes option pricing model and is therefore considered to be a Level 3 measurement. On June 24, 2022 all warrants were forfeited upon the consummation of the Recapitalization Transaction.

The following table summarizes the changes in Level 3 financial assets and liabilities:

| | Derivative Liabilities |
|---|---|
| **Balance as of December 31, 2021** | **$ 16** |
| Revaluations on Level 3 instruments | (16) |
| **Balance as of June 30, 2022** | **$ —** |

The Company's financial and non-financial assets such as prepayments, other assets including equity accounted investments, property, plant and equipment, and intangibles, are measured at fair value when there is an indicator of impairment and are recorded at fair value only when an impairment charge is recognized.

The following table summarizes the Company's long-term debt instruments (Note 5) at their carrying value and fair value:

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| June Unsecured Debentures | $ 14,896 | $ 14,888 | $ 57,171 | $ 64,596 |
| June Secured Debentures | 109,760 | 105,938 | 134,902 | 176,487 |
| Secured Notes | 13,135 | 12,971 | — | — |
| Other | 1,276 | 1,135 | 1,307 | 1,021 |
| **Total** | **$ 139,067** | **$134,932** | **$ 193,380** | **$242,104** |

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**Note 10 – Commitments**

In the ordinary course of business, the Company enters into contractual agreements with third parties that includenon-cancelable payment obligations, for which it is liable in future periods. These arrangements can include terms binding the Company to minimum payments and/or penalties if it terminates the agreement for any reason other than an event of default as described in the agreement.

The following table summarizes the Company's contractual obligations and commitments as of June 30, 2022:

| For the twelve months ended June 30, | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| Operating leases | $ 7,852 | $7,932 | $8,107 | $8,137 | $ 7,672 |
| Service contracts | 2,108 | 2 | — | — | — |
| Long-term debt | 14,425 | 134 | 134 | 134 | 216,432 |
| **Total** | **$24,385** | **$8,068** | **$8,241** | **$8,271** | **$224,104** |

* The Company's commitments include payments to employees, consultants and advisors, as well as leases and construction contracts for offices, dispensaries and cultivation facilities in the U.S. and Canada. The Company has certain operating leases with renewal options extending the initial lease term for an additional one to 15 years.

**Note 11 – Contingencies and Guarantees**

The Company is involved in lawsuits, claims, and proceedings, including those identified below, which arise in the ordinary course of business. In accordance with the Financial Accounting Standards Board ASC Topic 450 Contingencies, the Company will make a provision for a liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company believes it has adequate provisions for any such matters. The Company reviews these provisions in conjunction with any related provisions on assets related to the claims at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other pertinent information related to the case. Should developments in any of these matters outlined below cause a change in the Company's determination as to an unfavorable outcome and result in the need to recognize a material provision, or, should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on the Company's results of operations, cash flows, and financial position in the period or periods in which such a change in determination, settlement or judgment occurs.

The Company expenses legal costs relating to its lawsuits, claims and proceedings as incurred. The Company has been named as a defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Based on consultation with counsel, management and legal counsel is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

The events that allegedly gave rise to the following claims occurred prior to the Company's closing of the MPX Acquisition in February 2019 are as follows:

- There was a claim by a former consultant against the Company, with respect to alleged consulting fees owed by MPX to the consultant, claiming the right to receive approximately $0.5 million and punitive damages. During the year ended December 31, 2021, the former consultant updated the claim to set forth the total damages claimed, which are $5.4 million, and provided supplemental disclosures which specify total damages sought, which are $167.0 million. On December 13, 2021, the Company and former consultant reached a full and final settlement of $1.5 million. As of June 30, 2022, $1.0 million was paid and the remaining balance of $0.5 million is presented as part of the accrued and other current liabilities line on the unaudited interim condensed consolidated balance sheets;
- There is a claim from two former noteholders against the Company and MPX Bioceutical ULC ("MPX ULC"), with respect to alleged payments of $1.3 million made by the noteholders to MPX, claiming the right to receive $115.0 million; and
- There is a claim against the Company, MPX ULC and MPX, with respect to a prior acquisition made by MPX in relation to a subsidiary that was not acquired by the Company as part of the MPX Acquisition, claiming $3.0 million in connection with alleged contractual obligations of MPX.

In addition, the Company is currently reviewing the following matters with legal counsel and has not yet determined the range of potential losses:

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In October 2018, Craig Roberts and Beverly Roberts (the "Roberts") and the Gary W. Roberts Irrevocable Trust Agreement I, Gary W. Roberts Irrevocable Trust Agreement II, and Gary W. Roberts Irrevocable Trust Agreement III (the "Roberts Trust" and together with the Roberts, the "Roberts Plaintiffs") filed two separate but similar declaratory judgment actions in the Circuit Court of Palm Beach County, Florida against GrowHealthy Holdings, LLC ("GrowHealthy Holdings") and the Company in connection with the acquisition of substantially all of GrowHealthy Holdings' assets by the Company in early 2018. The Roberts Plaintiffs sought a declaration that the Company must deliver certain share certificates to the Roberts without requiring them to deliver a signed Shareholder Representative Agreement to GrowHealthy Holdings, which delivery was a condition precedent to receiving the Company share certificates and required by the acquisition agreements between GrowHealthy Holdings and the Company. In January 2019, the Circuit Court of Palm Beach County denied the Roberts Plaintiffs' motion for injunctive relief, and the Roberts Plaintiffs signed and delivered the Shareholder Representative Agreement forms to GrowHealthy Holdings while reserving their rights to continue challenging the validity and enforceability of the Shareholder Representative Agreement. The Roberts Plaintiffs thereafter amended their complaints to seek monetary damages in the aggregate amount of $22.0 million plus treble damages. On May 21, 2019, the court issued an interlocutory order directing the Company to deliver the share certificates to the Roberts Plaintiffs, which the Company delivered on June 17, 2019, in accordance with the court's order. On December 19, 2019, the Company appealed the court's order directing delivery of the share certificates to the Florida Fourth District Court of Appeal, which appeal was denied per curiam. On October 21, 2019, the Roberts Plaintiffs were granted leave by the Circuit Court of Palm Beach County to amend their complaints in order to add purported claims for civil theft and punitive damages, and on November 22, 2019, the Company moved to dismiss the Roberts Plaintiffs' amended complaints. On May 1, 2020, the Circuit Court of Palm Beach County heard arguments on the motions to dismiss, and on June 11, 2020, the court issued a written order granting in part and denying in part the Company's motion to dismiss. Specifically, the order denied the Company's motion to dismiss for lack of jurisdiction and improper venue; however, the court granted the Company's motion to dismiss the Roberts Plaintiffs' claims for specific performance, conversion and civil theft without prejudice. With respect to the claim for conversion and civil theft, the Circuit Court of Palm Beach County provided the Roberts Plaintiffs with leave to amend their respective complaints. On July 10, 2020, the Roberts Plaintiffs filed further amended complaints in each action against the Company including claims for conversion, breach of contract and civil theft including damages in the aggregate amount of $22.0 million plus treble damages, and on August 13, 2020, the Company filed a consolidated motion to dismiss such amended complaints. On October 26, 2020, Circuit Court of Palm Beach County heard argument on the consolidated motion to dismiss, denied the motion and entered an order to that effect on October 28, 2020. Answers on both actions were filed on November 20, 2020 and the parties commenced discovery. On September 9, 2021, the Roberts Plaintiffs filed a motion to consolidate the two separate actions, which motion was granted on October 14, 2021. On August 6, 2020, the Roberts filed a lawsuit against Randy Maslow, the Company's now former Interim Chief Executive Officer, President, and director, in his individual capacity (the "Maslow Complaint"), alleging a single count of purported conversion. The Maslow Complaint was not served on Randy Maslow until November 25, 2021, and the allegations in the Maslow Complaint are substantially similar to those allegations for purported conversion in the complaints filed against the Company. On March 28, 2022, the court consolidated the action filed against Randy Maslow with the Roberts Plaintiffs' action for discovery and trial purposes. As a result, the court vacated the matter's initial trial date of May 9, 2022 and the case has not been reset for trial yet. On April 22, 2022, the parties attended a court required mediation, which was unsuccessful. On May 6, 2022, the Circuit Court of Palm Beach County granted Randy Maslow's motion to dismiss the Maslow Complaint. On May 19, 2022, the Roberts filed a second amended complaint against Mr. Maslow ("Amended Maslow Complaint"). On June 3, 2022, Mr. Maslow filed a motion to dismiss the Amended Maslow Complaint, which motion remains pending before the court.

On April 19, 2020, Hi-Med LLC ("Hi-Med"), an equity holder and one of the Unsecured Lenders who held an Unsecured Debenture in the principal amount of $5.0 million prior to the closing of the Recapitalization Transaction, filed a complaint with the United States District Court for the Southern District of New York (the "SDNY") against the Company and certain of the Company's current and former directors and officers and other defendants (the "Hi-Med Complaint"). Hi-Med is seeking damages of an unspecified amount and the full principal amount of the Unsecured Debenture against the Company, for among other things, alleged breaches of provisions of the Unsecured Debentures and the related Debenture Purchase Agreement as well as alleged violations of Federal securities laws, including Sections 10(b), 10b-5 and 20(a) of the Securities Exchange Act of 1934, as amended and common law fraud relating to alleged false and misleading statements regarding certain proceeds from the issuance of long-term debt that were held in escrow to make interest payments in the event of a default thereof. On July 9, 2020, the court issued an order consolidating the class action matter with the shareholder class action referenced below. On July 23, 2020, Hi-Med and the defendants filed a stipulation and proposed scheduling and coordination order to coordinate the pleadings for the consolidated actions. On September 4, 2020, Hi-Med filed an amended complaint (the "Hi-Med Amended Complaint"). On October 14, 2020, the SDNY issued a stipulation and scheduling and coordination order, which required that the defendants answer, move, or otherwise respond to the Hi-Med Amended Complaint no later than November 20, 2020. On November 20, 2020, the Company and certain of its current officers and directors filed a Motion to Dismiss the Hi-Med Amended Complaint. On January 8, 2021, Hi-Med filed an opposition to the Motion to Dismiss. The Company and certain of its current officers and directors' reply were filed on February 22, 2021. In a memorandum of opinion dated August 30, 2021, the SDNY granted the Company's and certain of its officers and directors' Motion to Dismiss the Hi-Med Amended Complaint. The SDNY indicated that Hi-Med may move for leave to file a proposed second amended complaint by September 30, 2021. On September 30, 2021, Hi-Med filed a motion for leave to amend the Hi-Med Amended Complaint. On October 28, 2021, the parties filed a Stipulation and Proposed Scheduling Order Regarding Hi-Med's Motion for Leave to File a second Amended Complaint (the "Stipulation"). On November 3, 2021, the SDNY so-ordered the Stipulation and Hi-Med's second Amended Complaint was deemed filed as of this date. On December 20, 2021, the Company and its current named officers and directors filed a Motion to Dismiss Hi-Med's second Amended Complaint. Hi-Med's opposition to the Company's and its current named officers and directors' Motion to Dismiss was filed on February 3, 2022. The Company and its current named officers and directors' reply to Hi-Med's opposition was filed on March 21, 2022. The Motion to Dismiss Hi-Med's second Amended Complaint remains pending before the SDNY. On June 29, 2020, Hi-Med filed a claim in the Court, which mirrors the Hi-Med Complaint. Refer to Note 5 for further discussion on the Unsecured Debentures.

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On April 20, 2020, Donald Finch, a shareholder of the Company, filed a putative class action lawsuit with the SDNY against the Company (the "Class Action Lawsuit") and is seeking damages for an unspecified amount against the Company, its former Chief Executive Officer, its current Chief Financial Officer and others for alleged false and misleading statements regarding certain proceeds from the issuance of long-term debt, that were held in escrow to make interest payments in the event of default on such long-term debt. On May 5, 2020, Peter Cedeno, another shareholder of the Company, filed a putative class action against the same defendants alleging substantially similar causes of action. On June 16, 2020, four separate motions for consolidation, appointment as lead plaintiff, and approval of lead counsel were filed by Jose Antonio Silva, Robert and Sherri Newblatt, Robert Dankner, and Melvin Fussell. On July 9, 2020, the SDNY issued an order consolidating the Class Action Lawsuit and the Hi-Med Complaint referenced above and appointed Jose Antonio Silva as lead plaintiff ("Lead Plaintiff"). On July 23, 2020, the Lead Plaintiff and defendants filed a stipulation and proposed scheduling and coordination order to coordinate the pleadings for the consolidated actions. On September 4, 2020, the Lead Plaintiff filed a consolidated amended class action lawsuit against the Company (the "Amended Complaint"). On November 20, 2020, the Company and its Chief Financial Officer filed a Motion to Dismiss the Amended Complaint. On January 8, 2021, the Lead Plaintiff filed an opposition to the Motion to Dismiss the Amended Complaint. The Company and its Chief Financial Officer's reply to the opposition was filed on February 22, 2021. In a memorandum of opinion dated August 30, 2021, the SDNY granted the Company's and its Chief Financial Officer's Motion to Dismiss the Amended Complaint. The SDNY indicated that the Lead Plaintiff may move for leave to file a proposed second amended complaint by September 30, 2021. On October 1, 2021, the Lead Plaintiff filed a motion for leave to amend the Amended Complaint. The Lead Plaintiff's Motion for Leave to File a second Amended Complaint was included as part of the Stipulation identified above. On November 3, 2021, the SDNY so-ordered the Stipulation and the Lead Plaintiff's second Amended Complaint was deemed filed as of this date. On December 20, 2021, the Company and its Chief Financial Officer filed a Motion to Dismiss the Lead Plaintiff's second Amended Complaint. The Lead Plaintiff's opposition to the Company's and its Chief Financial Officer's Motion to Dismiss was filed on February 3, 2022. The Company's and its Chief Financial Officer's reply to the Lead Plaintiff's opposition was filed on March 21, 2022. The Motion to Dismiss the Lead Plaintiff's second Amended Complaint remains pending before the SDNY.

On July 13, 2020, the Company announced the Recapitalization Transaction. On September 14, 2020, at the meetings of Secured Lenders, Unsecured Lenders and the holders of the Company's common shares, options and warrants (collectively, the "Securityholders"), the Securityholders voted in support of the Recapitalization Transaction. On October 5, 2020, the Company received final approval from the Court for the Plan of Arrangement. Completion of the Recapitalization Transaction was subject to the Company obtaining the Requisite Approvals. As such, no amounts were accrued with respect to the Recapitalization Transaction. On January 29, 2021, a notice of appeal with respect to the final approval for the Plan of Arrangement received by the Company, and on November 5, 2020 was dismissed by the British Columbia Court of Appeal. On June 15, 2021, the Company, Secured Lenders and Consenting Unsecured Lenders agreed to amend the Outside Date with respect to the Recapitalization Transaction from June 30, 2021 to August 31, 2021. On August 20, 2021, the Applicants filed the Application with the OSCJ, which sought, among other things, a declaration that the Outside Date for the closing of the Recapitalization Transaction be extended to the date on which any regulatory approval or consent condition to implementation of the Plan of Arrangement is satisfied or waived. On October 12, 2021, the OSCJ granted the declaration sought by the Applicants and ordered that the Outside Date in the Restructuring Support Agreement be extended to the date on which any regulatory approval or consent condition to implementation of the Plan of Arrangement is satisfied or waived. On November 10, 2021, the Company filed a Notice of Appeal with the Ontario Court of Appeal. The Company intends to discontinue such appeal with prejudice now that the Recapitalization Transaction has closed.

On July 23, 2020, Blue Sky Realty Corporation filed a putative class action against the Company, the Company's former Chief Executive Officer, and the Company's Chief Financial Officer in the OSCJ in Toronto, Ontario. On September 27, 2021, the OSCJ granted leave for the plaintiff to amend its claim ("Amended Claim"). In the Amended Claim, the plaintiff seeks to certify the proposed class action on behalf of two classes. "Class A" consists of all persons, other than any executive level employee of the Company and their immediate families ("Excluded Persons"), who acquired the Company's common shares in the secondary market on or after April 12, 2019, and who held some or all of those securities until after the close of trading on April 5, 2020. "Class B" consists of all persons, other than Excluded Persons, who acquired the Company's common shares prior to April 12, 2019, and who held some or all of those securities until after the close of trading on April 5, 2020. Among other things, the plaintiff alleges statutory and common law misrepresentation, and seeks an unspecified amount of damages together with interest and costs. The plaintiff also alleges common law oppression for releasing certain statements allegedly containing misrepresentations inducing Class B members to hold the Company's securities beyond April 5, 2020. No certification motion has been scheduled. The Amended Claim also changed the named plaintiff from Blue Sky Realty Corporation to Timothy Kwong. The hearing date for the motion for leave to proceed with a secondary market claim under the Securities Act (Ontario) has been vacated.

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During the year ended December 31, 2020, the Company filed a statement of claim against Oasis Investments II Master Fund Ltd. ("Oasis"), an Unsecured Lender, in the OSCJ. In response to the Company's statement of claim, Oasis filed a statement of defense and counterclaim against the Company on March 13, 2020, alleging that the Company breached certain debt covenants and an order directing the Company to immediately repay Oasis its $25.0 million investment plus applicable interest, expenses and fees, among other damages.On July 15, 2020, in connection with the Recapitalization Transaction, the Company agreed to discontinue with prejudice its claim against Oasis, which was filed on February 27, 2020. In connection with the closing of the Recapitalization Transaction, Oasis discontinued its counterclaim with prejudice.

On August 19, 2021, Arvin Saloum ("Saloum"), a former consultant of the Company, filed a Demand for Arbitration with the American Arbitration Association against The Healing Center Wellness Center, Inc. ("THCWC") and iAnthus Arizona, LLC ("iA AZ"), claiming a breach of a Consulting and Joint Venture Agreement (the "JV Agreement") for unpaid consulting fees allegedly owed to Saloum under the JV Agreement. Saloum is claiming damages between $1.0 million and $10.0 million. On September 7, 2021, THCWC and iA AZ filed Objections and Answering Statement to Saloum's Demand for Arbitration. On November 18, 2021, THCWC and iA AZ filed a Complaint for Declaratory Judgment ("Declaratory Judgment Complaint") with the Arizona Superior Court, Maricopa County ("Arizona Superior Court"), seeking declarations that: (i) the JV Agreement is void, against public policy and terminable at will; (ii) the JV Agreement is unenforceable and not binding; and (iii) the JV Agreement only applies to sales under the Arizona Medical Marijuana Act. On January 21, 2022, Saloum filed an Answer with Counterclaims in response to the Declaratory Judgment Complaint. The Declaratory Judgment Complaint remains pending before the Arizona Superior Court. The Arbitration Action is stayed, pending resolution of the Declaratory Judgment Complaint.

On May 23, 2022, CGX Life Sciences, Inc. ("CGX"), a wholly-owned subsidiary of the Company, filed a demand for arbitration (the "CGX Arbitration") with the American Arbitration Association ("AAA") against LMS Wellness, Benefit LLC ("LMS") and its 100% owner, William Huber ("Huber" and together with LMS, the "Defendants") for various breaches under the option agreements entered into between CGX and LMS, on the one hand, and CGX and Huber on the other (collectively, the "Option Agreements"). Specifically, CGX is seeking: (i) an order finding the Defendants in breach of the Option Agreements and directing specific performance by the Defendants of their obligations under the Option Agreements to complete the sale and transfer of LMS to CGX; (ii) an order either tolling or extending the closing date under the Option Agreements; (ii) an order requiring Huber to restore LMS' bank account of all sums withdrawn for the payment of contracts entered into in breach of the Option Agreements; and (iii) an order prohibiting Huber from withdrawing any further funds from LMS' bank account. On June 8, 2022, the Defendants filed an Answering Statement, denying the allegations raised by CGX and sent a notice to CGX, purporting to terminate the Option Agreements. In addition, on June 8, 2022, LMS filed a demand for arbitration (the "S8 Arbitration") with the AAA against S8 Management, LLC ("S8"), alleging that S8 breached the Amended and Restated Management Services Agreement (the "MSA") entered into between LMS and S8 on March 12, 2018. On June 24, 2022, the Defendants filed Motion to Consolidate the CGX Arbitration and S8 Arbitration. On July 5, 2022, CGX filed an opposition to the Defendants' Motion to Consolidate and a cross-Motion to Stay the S8 Arbitration to allow the CGX Arbitration to proceed first. On July 26, 2022, the parties attended a preliminary conference with the arbitrator, at which conference the arbitrator preliminarily granted the Defendants' Motion to Consolidate and denied CGX's cross-Motion to Stay the S8 Arbitration.

**Note 12 – Related Party Transactions**

| Financial Statement Line Item | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Current portion of long-term debt, net of issuance costs [1] | 12,062 | — |
| Long-term debt, net of issuance costs [1] | 106,360 | — |
| Accrued and other current liabilities | 11,626 | |
| Other long-term assets | — | 4,552 |
| **Total** | **$130,048** | **$ 4,552** |

(1) Upon the closing of the Recapitalization Transaction, certain of the Company's lenders held greater than 10.0% of the voting interests in the Company and therefore are classified as related parties. Refer to Note 5 for further discussion.

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As part of the MPX Acquisition, the Company acquired a related party receivable of $0.7 million due from a company owned by a former director and officer of the Company, Elizabeth Stavola. The related party receivable was converted into a loan facility of up to $10.0 million, which accrued interest at the rate of 16.0%, compounded annually. Interest was due upon maturity of the loan on December 31, 2021. During the year ended December 31, 2021, the Company exercised its right to convert the principal balance of the loan and accrued interest into a 99.0% equity interest in MPX NJ and exercised its option to acquire the remaining 1.0% of MPX NJ, upon receipt of approval from the New Jersey Cannabis Regulatory Commission (the "CRC"). On January 7, 2022, the CRC approved the Company's acquisition of 100% of the equity interests in MPX NJ. The Company recorded acquisition costs of $0.1 million and $0.3 million within selling, general and administrative expenses on the unaudited interim condensed consolidated statement of operations for the three and six months ended June 30, 2022, respectively (June 30, 2021 - $Nil and $Nil, respectively). As of June 30, 2022, the balance of such facility was $Nil (December 31, 2021 – $4.6 million), which included accrued interest of $Nil (December 31, 2021 - $0.9 million). The related party balances are presented in other long-term assets on the unaudited interim condensed consolidated balance sheets.

On June 30, 2017, the Company entered into a loan facility with a former director and officer of the Company, Hadley Ford ("Ford"). The total loan facility was up to C$0.5 million (equivalent to $0.4 million) and accrued interest at the rate of 2.5%. Interest was due upon maturity of the loan on June 30, 2021. As part of Ford's termination agreement, the total loan facility was offset by compensation owed to Ford of $0.5 million during the first quarter of 2021. As of June 30, 2022, the outstanding balance of the facility including accrued interest was $Nil (December 31, 2021 – $Nil).

Effective as of May 6, 2022 (the "Resignation Date"), Randy Maslow, the Company's Interim Chief Executive Officer and President and a member of the Board of Directors, resigned from his executive positions, including all positions with the Company's subsidiaries and its affiliates, and from the Company's Board of Directors and its committees. In connection with the resignation, Mr. Maslow and the Company executed a separation agreement (the "Separation Agreement"), pursuant to which, Mr. Maslow will receive certain compensation and benefits valued to substantially equal the value of entitlements he would have received under Section 4(g) of his employment agreement. Specifically, Mr. Maslow will receive total cash compensation in the amount of approximately $12.2 million (the "Separation Payment"), of which $5.1 million was paid out on May 6, 2022 (made up, in part of a portion of severance payment of approximately $4.8 million, and unpaid 2021 bonus of $300,000). The remainder of the Separation Payment was to be paid out in equal installments of approximately $0.9 million per month over the next eight months following the Resignation Date, which was accelerated upon the closing of the Recapitalization Transaction. As of June 30, 2022, the total remaining balance owed to Mr. Maslow was $ 5.3 million, which is presented in accrued and other liabilities on the unaudited interim condensed consolidated balance sheets. The total outstanding balance of the Separation Payment owed to Mr. Maslow was paid in full as of July 15, 2022. Under the terms of the Separation Agreement, the Company will continue to pay the monthly premium for Mr. Maslow's continued participation in the Company's health and dental insurance benefits pursuant to COBRA for one year from the Resignation Date. Mr. Maslow's compensation and benefits under the Separation Agreement included the extension of exercise period of options to acquire the Company's common shares, until the earlier of (i) five years from the Resignation Date; (ii) the original expiration dates of the applicable option; or (iii) the closing of the Recapitalization Transaction. In accordance with the terms of the Separation Agreement, Mr. Maslow's options to acquire the Company's common shares expired as of the Closing Date of the Recapitalization Transaction. Mr. Maslow will continue to serve in a consulting role for a period of six months following the Resignation Date (provided that such period may be extended by additional six months by the Company) at a base compensation of $25,000 per month. During the three and six month ended June 30, 2022, the Company paid less than $0.1 million and $0.1 million, respectively, to Mr. Maslow in relation to consulting services provided (June 30, 2021 - $Nil and $Nil, respectively).

Pursuant to the terms of the Secured DPA, the Company has a related party payable of $6.3 million due to certain of the New Secured Lenders, including Gotham Green Fund 1, L.P., Gotham Green Fund 1 (Q), L.P., Gotham Green Fund II, L.P., Gotham Green Fund II (Q), L.P., Oasis Investment Master II Fund LTD., Senvest Global (KY), LP, and Senvest Master Fund, LP, for certain out-of-pocket costs, charges, fees, taxes and other expenses incurred by the New Secured Lenders in connection with the closing of the Recapitalization Transaction (the "Deferred Professional Fees"). These New Secured Lenders held greater than 10% of the outstanding common shares of the Company upon the closing of the Recapitalization Transaction and are therefore considered to be related parties. The Company shall have until December 31, 2022, to pay the Deferred Professional Fees ratably based on the amount of each New Secured Lender's Deferred Professional Fees. The Deferred Professional Fees shall accrue simple interest at the rate of 12.0% from the Closing Date until December 31, 2022. Beginning with the first business day of the month following December 31, 2022, interest shall accrue on the Deferred Professional Fees at the rate of 20.0% calculated on a daily basis and is payable on the first business day of every month until the Deferred Professional Fees and accrued interest thereon is paid in full. As of June 30, 2022, the outstanding related party portion of the Deferred Professional Fees including accrued interest was $6.3 million (December 31, 2021 – $Nil). The related party balance is presented in accrued and other current liabilities on the unaudited interim condensed consolidated balance sheets.

**Note 13 – Unaudited Interim Condensed Consolidated Statements of Cash Flows Supplemental Information**

*(a) Cash payments made on account of:*

| | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|
| Income taxes | $ 1,069 | $ 1,560 |
| Interest | 45 | 47 |

*(b) Changes in other non-cash operating assets and liabilities are comprised of the following:*

| | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|
| **Decrease (increase) in:** | | |
| Accounts receivables | $ 604 | $ (291) |
| Prepaid expenses | (800) | (267) |
| Inventories | (446) | (2,205) |
| Other current assets | 286 | (1,102) |
| Other long-term assets | (35) | 506 |
| Operating leases | (674) | (704) |
| **(Decrease) increase in:** | | |
| Accounts payable | (881) | (1,232) |
| Accrued and other current liabilities | 20,173 | 12,704 |
| | **$ 18,227** | **$ 7,409** |

*(c) Depreciation and amortization are comprised of the following:*

| | Six Months Ended June 30, | |
|---|---|---|
| | 2022 | 2021 |
| Property, plant and equipment | $ 7,091 | $ 6,386 |
| Operating lease right-of-use assets | 1,208 | 1,037 |
| Intangible assets | 8,125 | 7,710 |
| | **$ 16,424** | **$ 15,133** |

**iANTHUS CAPITAL HOLDINGS, INC.**
**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
*(Tabular U.S. dollar amounts and shares in thousands, unless otherwise stated)*

*(d) Write-downs and other charges are comprised of the following:*

| | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|
| **Write-downs :** | | |
| Account receivable recoveries | $ (17) | $ (72) |
| Operating lease right-of-use assets | — | 258 |
| Property, plant and equipment | 228 | — |
| | **$ 211** | **$ 186** |

(e) Significant non-cash investing and financing activities are as follows:

| | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|
| **Supplemental Cash Flow Information:** | | |
| Non-cash consideration for paid-in-kind interest | 1,719 | 554 |
| Non-cash consideration for asset acquisition | 19,193 | — |
| Non-cash issuance of shares from consummation of the Recapitalization Transaction | 455,443 | — |
| Non-cash debt extinguishment from the consummation of the Recapitalization Transaction | (238,269) | — |
| Non-cash issuance of June Secured Debentures and June Unsecured Debentures from the consummation of the Recapitalization Transaction | 99,402 | — |

***Cash and Restricted Cash***

For purposes of the unaudited interim condensed consolidated balance sheets and the statements of cash flows, cash and restricted cash are held primarily in U.S. dollars.

Restricted cash balances are those which meet the definition of cash and cash equivalents but are not available for use by the Company. As of June 30, 2022, the Company held $1.3 million as restricted cash (December 31, 2021—$3.3 million), which is mainly related to funds held in escrow from the Senior Secured Bridge Notes. The net proceeds from the Senior Secured Bridge Notes were placed in escrow, and the availability of the funds is subject to drawdown requests that must be approved Gotham Green Admin 2, LLC, the collateral agent of the Senior Secured Bridge Notes.

The following table provides a reconciliation of cash and restricted cash reported on the unaudited interim condensed consolidated balance sheets to such amounts presented in the statements of cash flows:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Cash | $29,803 | $ 13,244 |
| Restricted cash | 1,337 | 3,334 |
| **Total cash and restricted cash presented in the statements of cash flows** | **$31,140** | **$ 16,578** |

**Note 14 – Subsequent Events**

In January 2018, CGX entered into separate option agreements, as amended, with (i) all of the shareholders (the "Budding Rose Sellers") of Budding Rose, Inc. ("Budding Rose"); (ii) all of the shareholders (the "Rosebud Sellers") of Rosebud Organics, Inc. ("Rosebud") and (iii) Elizabeth Stavola (the "GMMD Seller" and together with the Budding Rose Sellers and Rosebud Sellers, the "Sellers"), a former officer and director of the Company and the sole member of GreenMart of Maryland, LLC ("GMMD"), pursuant to which, CGX was granted and exercised its options to acquire 100% ownership of Budding Rose, Rosebud and GMMD on September 16, 2021, April 1, 2021 and November 5, 2021, respectively, all subject to regulatory approval by the Maryland Medical Cannabis Commission (the "MMCC"). On July 28, 2022, the MMCC approved CGX's request to acquire 100% ownership of Budding Rose, Rosebud and GMMD. On August 9, 2022, CGX closed on its acquisition of GMMD. CGX is working with the Rosebud Sellers and Budding Rose Sellers to close those acquisitions.

***Legal Proceedings***

Please refer to Note 11 for further discussion.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited interim condensed consolidated financial statements and the related notes appearing elsewhere in this Quarterly Report on Form 10-Q. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as may be amended, supplemented or superseded from time to time by other reports we file with the SEC. All amounts in this report are in U.S. dollars, unless otherwise note.*

### Overview

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

Through our subsidiaries, we currently own and/or operate 34 dispensaries and 10 cultivation and/or processing facilities in nine U.S. states. Pursuant to our existing licenses, interests and contractual arrangements, and subject to regulatory approval, we have the capacity to own and/or operate up to an additional 10 dispensary licenses and/or dispensary facilities in six states, plus an uncapped number of dispensary licenses in Florida, and up to 21 cultivation, manufacturing and/or processing facilities, and we have the right to manufacture and distribute cannabis products in nine U.S. states, all subject to the necessary regulatory approvals.

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

*Financial Restructuring*

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

On June 22, 2020, we received a notice demanding repayment under the Amended and Restated Debenture Purchase Agreement dated October 19, 2019 of the entire principal amount of the Secured Notes, together with interest, fees, costs and other charges that have accrued or may accrue from Gotham Green Admin 1, LLC (the "Collateral Agent") holding security for the benefit of the Secured Notes. The Collateral Agent concurrently provided us with the Notice of Intention to Enforce Security under section 244 of the Bankruptcy and Insolvency Act (Canada).

On July 10, 2020, we entered into a restructuring support agreement (as amended on June 15, 2021, the "Restructuring Support Agreement") with the Secured Lenders and certain of our Unsecured Lenders (the "Consenting Unsecured Lenders") to effectuate a recapitalization transaction (the "Recapitalization Transaction"), which we consummated on June 24, 2022 (the "Closing Date"). The Recapitalization Transaction closed pursuant to the terms of the amended and restated plan of arrangement (the "Plan of Arrangement") under the Business Corporations Act (British Columbia) approved by the Supreme Court of British Columbia (the "Court"). Pursuant to the terms of the Restructuring Support Agreement, the Collateral Agent, the Secured Lenders and the Consenting Unsecured Lenders agreed to forbear from further exercising any rights or remedies in connection with any events of default that existed or may have existed in the future arising under any of the purchase agreements with respect to the Secured Notes and all other agreements delivered in connection therewith, the purchase agreements with respect to the Unsecured Debentures and all other agreements delivered in connection therewith and any other agreement to which the Collateral Agent, Secured Lenders, or Consenting Unsecured Lenders are a party to (collectively, the "Defaults"). As of the Closing Date, the Collateral Agent, Secured Lenders and Consenting Unsecured Lenders irrevocably waived all Defaults.

In connection with the closing of the Recapitalization Transaction, we issued an aggregate of 6,072,579,705 common shares to the Secured Lenders and the Unsecured Lenders. Specifically, we issued 3,036,289,852 common shares (the "Secured Lender Shares"), or 48.625% of our outstanding common shares, to the Secured Lenders and 3,036,289,853 common shares (the "Unsecured Lender Shares" and together with Secured Lender Shares, the "Shares"), or 48.625% of our outstanding common shares, to the Unsecured Lenders. As of the Closing Date, we had 6,244,297,897 common shares issued and outstanding. As of the Closing Date, the holders of our common shares collectively held 171,718,192 common shares, or 2.75% of our outstanding common shares.

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

*Secured Debenture Purchase Agreement*

In connection with the closing of the Recapitalization Transaction, we entered into a Third Amended and Restated Secured Debenture Purchase Agreement (the "Secured DPA"), dated as of June 24, 2022, with ICM, the other Credit Parties (as defined in the Secured DPA), the Collateral Agent, and the lenders party thereto (the "New Secured Lenders") pursuant to which ICM issued the New Secured Lenders 8.0% secured debentures (the "June Secured Debentures") in the aggregate principal amount of $99.7 million pursuant to the Plan of Arrangement.

The June Secured Debentures accrue interest at a rate of 8.0% per annum (increasing to 11.0% upon the occurrence of an Event of Default (as defined in the Secured DPA)), are due on June 24, 2027, and may be prepaid on a pro rata basis from and after the third anniversary of the Closing Date upon prior written notice to the New Secured Lenders without premium or penalty. Upon receipt of a Change of Control Notice (as defined in the Secured DPA), each New Secured Lender may provide notice to ICM to either (i) purchase the June Secured Debenture at a price equal to 103.0% of the then outstanding principal amount together with interest accrued thereon (the "Offer Price") or (ii) if the Change of Control Transaction (as defined in Secured DPA) results in a new issuer, or if the New Secured Lender desires that the June Secured Debenture remain unpaid and continue in effect after the closing of the Change of Control Transaction, convert or exchange the June Secured Debenture into a replacement debenture of the new issuer or ICM, as applicable, in the aggregate principal amount of the Offer Price on substantially equivalent terms to those terms contained in the June Secured Debenture. Notwithstanding the foregoing, if 90.0% or more of the principal amount of all June Secured Debentures outstanding have been tendered for redemption on the date of the Change of Control Notice, ICM may, at its sole discretion, redeem all of the outstanding June Secured Debentures at the Offer Price. As security for the Obligations (as defined in the Secured DPA), ICM and the Company granted to the Collateral Agent, for the benefit of the New Secured Lenders, a security interest over all of their present and after acquired personal property.

Pursuant to the Secured DPA, so long as Gotham Green Partners, LLC or any of its Affiliates (as defined in the Secured DPA) hold at least 50.0% of the outstanding principal amount of June Secured Debentures, the Collateral Agent will have the right to appoint two non-voting observers to our Board of Directors (the "Board of Directors" or "Board"), each of which shall receive up to a maximum amount of $25,000 in any 12-month period for reasonable out-of-pocket expenses. In addition, pursuant to the Secured DPA, the New Secured Lenders purchased an additional $25.0 million of Secured Debentures (the "Additional Secured Debentures").

*Unsecured Debenture Purchase Agreement*

In connection with the closing of the Recapitalization Transaction, we, as guarantor of the Guaranteed Obligations (as defined in the Unsecured DPA (as defined herein)), entered into an Unsecured Debenture Purchase Agreement (the "Unsecured DPA") dated as of June 24, 2022 with ICM, the Secured Lenders and the Consenting Unsecured Lenders pursuant to which ICM issued 8.0% unsecured debentures (the "June Unsecured Debentures") in the aggregate principal amount of $20.0 million pursuant to the Plan of Arrangement, including $5.0 million to the Secured Lenders and $15.0 million to the Unsecured Lenders.

The June Unsecured Debentures accrue interest at a rate of 8.0% per annum (increasing to 11.0% upon the occurrence of an Event of Default (as defined in the Unsecured DPA)), are due on June 24, 2027, and may be prepaid on a pro rata basis from and after the third anniversary of the Closing Date upon prior written notice to the Unsecured Lender without premium or penalty. Upon receipt of a Change of Control Notice (as defined in the Unsecured DPA), each Unsecured Lender may provide notice to ICM to either (i) purchase the June Unsecured Debenture at a price equal to 103.0% of the then outstanding principal amount together with interest accrued thereon (the "Unsecured Offer Price") or (ii) if the Change of Control Transaction (as defined in Unsecured DPA) results in a new issuer, or if the Unsecured Lender desires that the June Unsecured Debenture remain unpaid and continue in effect after the closing of the Change of Control Transaction, convert or exchange the June Unsecured Debenture into a replacement debenture of the new issuer or ICM, as applicable, in the aggregate principal amount of the Unsecured Offer Price on substantially equivalent terms to those terms contained in the June Unsecured Debenture. Notwithstanding the foregoing, if 90.0% or more of the principal amount of all June Unsecured Debentures outstanding have been tendered for redemption on the date of the Change of Control Notice, ICM may, at its sole discretion, redeem all of the outstanding June Unsecured Debentures at the Unsecured Offer Price. Pursuant to the Unsecured DPA, the Obligations (as defined in the Unsecured DPA) are subordinated in right of payment to the Senior Indebtedness (as defined in the Unsecured DPA).

Pursuant to the Recapitalization Transaction, the Secured Lenders, the Unsecured Lenders and the existing holders of our common shares at the closing of the Recapitalization Transaction (the "Existing Shareholders") were allocated and issued the June Secured Debentures, the June Unsecured Debentures and percentage of our pro forma common shares, as presented in the following table:

| (in '000s of U.S. dollars) | June Secured Debentures[1] | Interim Financing[2] | June Unsecured Debentures[3] | Pro Forma Common Equity[4] |
|---|---|---|---|---|
| Secured Lenders | $ 85,000 | $ 14,737 | $ 5,000 | 48.625% |
| Unsecured Lenders | — | — | 15,000 | 48.625% |
| Existing Shareholders | — | — | — | 2.75% |
| **Total** | **$ 85,000** | **$ 14,737** | **$ 20,000** | **100%** |

(1) The Secured Notes and Interim Financing (as defined below) were extinguished as of the Closing Date and, in exchange, ICM issued the June Secured Debentures, which may be prepaid on a pro rata basis from and after the third anniversary of the Closing Date upon prior written notice to the New Secured Lenders without premium or penalty.

(2) Certain of the Secured Lenders provided $14.7 million of interim financing (the "Interim Financing") to ICM pursuant to the Restructuring Support Agreement.

(3) The Unsecured Debentures were extinguished as of the Closing Date, and in exchange, ICM issued the June Unsecured Debentures, which may be prepaid on a pro rata basis from and after the third anniversary of the Closing Date upon prior written notice to the Unsecured Lenders without premium or penalty. The June Unsecured Debentures are subordinate to the June Secured Debentures, but are senior to the Company's common shares.

(4) On December 31, 2021, our Board of Directors approved the terms of a Long-Term Incentive Program ("LTIP") recommended by our compensation committee and, pursuant to which, on July 26, 2022 we issued to certain of our employees (including executive officers) an aggregate of 320,165,409 restricted stock units ("RSUs"), under our Amended and Restated Omnibus Incentive Plan dated October 15, 2018 in order to attract and retain such employees. All of our existing warrants and options were cancelled, and our common shares may be consolidated pursuant to a consolidation ratio which has yet to be determined.

Consummation of the Recapitalization Transaction through the Plan of Arrangement was subject to certain conditions, including: approval of the Secured Lenders, Unsecured Lenders and existing holders of our common shares, warrants and options, which was obtained; approval of the Plan of Arrangement by the Court, which was obtained; and the receipt of all approvals by state-level regulators and the Canadian Securities Exchange (collectively, the "Requisite Approvals"). All Requite Approvals required to consummate the Recapitalization Transaction were satisfied, conditioned, or waived by the Company, Secured Lenders and Consenting Unsecured Lenders, for purposes of closing the Recapitalization Transaction on June 24, 2022. We are working to finalize any outstanding Requisite Approvals, including state regulatory approval in New Jersey and New York.

***Registration Rights Agreement***

In connection with the consummation of the Recapitalization Transaction, we entered into a registration rights agreement (the "RRA"), dated June 24, 2022, with ICM and certain holders of Registrable Securities (as defined in the RRA) (the "Holders") pursuant to which we shall, upon receipt of written notice (the "Shelf Request") from Holders of at least 15.0% of our outstanding common shares (the "Substantial Holders"), prepare and file (i) with the applicable Canadian Securities Regulators (as defined in the RRA), a Shelf Prospectus (as defined in the RRA) to facilitate a secondary offering of all of the Registrable Securities or (ii) with the Securities and Exchange Commission (the "SEC"), a registration statement on Form S-3 (the "S-3 Registration Statement") covering the resale of all Registrable Securities. In addition, pursuant to the RRA and subject to certain exceptions, the Substantial Holders may request (the "Demand Registration Request") that we file a Prospectus (as defined in the RRA) (other than a Shelf Prospectus) or a registration statement on any form that we are then eligible to use (the "Registration Statement") to facilitate a Distribution (as defined in the RRA) in Canada or the United States of all or any portion of the Registrable Securities (the "Demand Registration") held by the Holders requesting the Demand Registration. Moreover, pursuant to the RRA and subject to certain exceptions, if, at any time, we propose to make a Distribution for our own account, we shall notify the Holders of such Distribution (the "Piggyback Registration") and shall use reasonable commercial efforts to include in the Piggyback Registration such Registrable Securities requested by the Holders be included in such Piggyback Registration.

***Investor Rights Agreement***

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

- one investor (the "First Investor") shall be entitled to designate director nominees as follows:
    i. For so long as the First Investor's Debt Exchange Common Share Percentage (as defined in the IRA) is at least 30.0%, the First Investor shall be entitled to designate up to three individuals as director nominees;
    ii. For so long as the First Investor's Debt Exchange Common Share Percentage is less than 30.0% but is at least 15.0%, the First Investor shall be entitled to designate up to two individuals as director nominees; and
    iii. For so long as the First Investor's Debt Exchange Common Share Percentage is less than 15.0% but is at least 5.0%, the First Investor shall be entitled to designate up to one individual as a director nominee.

    The initial nominees of the First Investor are Scott Cohen, Michelle Mathews-Spradlin and Kenneth Gilbert.
- a second Investor (the "Second Investor") shall be entitled to designate up to one individual as a director nominee for so long as such Investor's Debt Exchange Common Share Percentage is at least 5.0%.
- a third Investor (the "Third Investor") shall be entitled to designate up to one individual as a director nominee for so long as such Investor's Debt Exchange Common Share Percentage is at least 5.0%.
- a fourth Investor (the "Fourth Investor") shall be entitled to designate up to one individual as a director nominee for so long as such Investor's Debt Exchange Common Share Percentage is at least 5.0%.

The Second Investor, Third Investor and Fourth Investor nominated Alexander Shoghi, Zachary Arrick and Marco D'Attanasio, respectively, as members of the Board.

**Recent Developments**

In January 2018, we, through our wholly - owned subsidiary, CGX Life Sciences, Inc. ("CGX"), entered into separate option agreements, as amended, with (i) all of the shareholders (the "Budding Rose Sellers") of Budding Rose, Inc. ("Budding Rose"); (ii) all of the shareholders (the "Rosebud Sellers") of Rosebud Organics, Inc. ("Rosebud") and (iii) Elizabeth Stavola (the "GMMD Seller" and together with the Budding Rose Sellers and Rosebud Sellers, the "Sellers"), our former officer and director and the sole member of GreenMart of Maryland, LLC ("GMMD"), pursuant to which, CGX was granted and exercised its options to acquire 100% ownership of Budding Rose, Rosebud and GMMD on September 16, 2021, April 1, 2021 and November 5, 2021, respectively, all subject to regulatory approval by the Maryland Medical Cannabis Commission (the "MMCC"). On July 28, 2022, the MMCC approved CGX's request to acquire 100% ownership of Budding Rose, Rosebud and GMMD. On August 9, 2022, CGX closed on its acquisition of GMMD. CGX is working with the Rosebud Sellers and Budding Rose Sellers to close those acquisitions.

**Results of Operations for the Three and Six Months Ended June 30, 2022 and 2021**

**Revenues and Gross Profit**

| (in '000s of U.S. dollars) | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Eastern Region | $ 25,760 | $ 34,725 | $ 50,545 | $ 67,780 |
| Western Region | 17,429 | 19,103 | 35,145 | 37,406 |
| Other | 292 | 400 | 581 | 847 |
| **Total revenues** | **$ 43,481** | **$ 54,228** | **$ 86,271** | **$ 106,033** |
| **Cost of sales applicable to revenues** | | | | |
| Eastern Region | $ (11,491) | $ (10,322) | $ (20,208) | $ (22,216) |
| Western Region | (12,217) | (12,099) | (23,522) | (21,823) |
| Other | (105) | (496) | (381) | (963) |
| **Total cost of sales applicable to revenues** | **$ (23,813)** | **$ (22,917)** | **$ (44,111)** | **$ (45,001)** |
| **Gross profit** | | | | |
| Eastern Region | $ 14,269 | $ 24,403 | $ 30,337 | $ 45,565 |
| Western Region | 5,212 | 7,004 | 11,623 | 15,583 |
| Other | 187 | (96) | 200 | (116) |
| **Total gross profit** | **$ 19,668** | **$ 31,311** | **$ 42,160** | **$ 61,032** |

The eastern region includes our operations in Florida, Maryland, Massachusetts, New York, New Jersey and Vermont. The western region includes our operations in Arizona and Nevada as well as our assets and investments in Colorado.

**Expenses**

| (in '000s of U.S. dollars) | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| Total operating expenses | $ 65,094 | $ 30,378 | $ 96,963 | $ 61,697 |
| Total other expenses | 322,745 | 8,305 | 318,595 | 18,868 |
| Income tax expense | 5,391 | 7,884 | 10,266 | 15,175 |

**Selling, General and Administrative Expenses Details**

| (in '000s of U.S. dollars) | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| Salaries and employee benefits | $ 8,950 | $ 9,344 | $ 19,240 | $ 19,350 |
| Severance | 11,889 | — | 11,889 | — |
| Share-based compensation | 21,372 | 1,661 | 22,836 | 3,295 |
| Legal and other professional fees | 1,747 | 3,597 | 5,370 | 8,836 |
| Deferred Professional Fees related to the Recapitalization Transaction | 7,091 | — | 7,091 | — |
| Facility, insurance and technology costs | 3,805 | 3,873 | 7,965 | 7,973 |
| Marketing expenses | 1,213 | 1,019 | 2,508 | 2,171 |
| Travel and pursuit costs | 208 | 113 | 470 | 264 |
| Amortization on right-of-use assets | 585 | 495 | 1,208 | 1,037 |
| Other general corporate expenditures | 1,270 | 1,389 | 2,959 | 2,793 |
| **Total** | **$ 58,130** | **$ 21,491** | **$ 81,536** | **$ 45,719** |

*Total operating expenses*

Total operating expenses other than those included in costs and expenses applicable to revenues consist of selling, general, and administrative expenses which are necessary to conduct our ordinary business operations. In addition, total operating expenses consist of marketing, technology, and other growth initiatives related expenses such as opening new dispensaries and building-out our facilities, as well as depreciation and amortization charges taken on our fixed and intangible assets, and any write-downs or impairment on our assets. We have taken the necessary measures to control our discretionary spending and employ capital as efficiently as possible. After normalizing for one-time items, we expect total operating expenses to remain consistent over the remainder of 2022 as we continue to employ a disciplined capital allocation approach and continue to closely monitor operating expenditures and discretionary spending.

*Total other income and expenses*

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

*Income tax expense*

As a company operating in the federally illegal cannabis industry, we are subject to the limitations of Internal Revenue Code Section 280E ("Section 280E") under which taxpayers are only allowed to deduct expenses directly related to sales of product and no other ordinary business expenses. Our effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of numerous permanent differences, the provision for income taxes at different rates in foreign and domestic jurisdictions, including changes in enacted statutory tax rate increases or reductions in the year, changes in our valuation allowance based on our recoverability assessments of deferred tax assets and favorable or unfavorable resolution of various tax examinations.

**Results of Operations for the Three Months Ended June 30, 2022 and 2021**

*Eastern region*

For the three months ended June 30, 2022, our sales revenues in the eastern region were $25.8 million as compared to $34.7 million for the three months ended June 30, 2021, which represents a decrease of 25.8%. The main drivers for the decrease in revenues are lower retail revenues in Florida and both lower retail and wholesale revenues in Maryland and Massachusetts from increased competition and price compression in these markets. This was offset by an increase in retail revenues in New York attributable to the sale of whole flower which was approved for sale in the state of New York in October 2021 and from our first quarter of revenues from our new dispensary in New Jersey, which opened on May 5, 2022.

For the three months ended June 30, 2022, gross profit was $14.3 million, or 55.4% of sales revenues, as compared to a gross profit of $24.4 million, or 70.3% of sales revenues, for the three months ended June 30, 2021. Gross margins decreased due to lower selling prices in retail dispensaries in Florida, Maryland and Massachusetts as well as lower wholesale prices in Maryland and Massachusetts while production costs and sales discounts continued to increase as a result of nationwide inflation and increased competition in these markets.

During the three months ended June 30, 2022, approximately 10,980 pounds of plant material was harvested in the eastern region as compared to approximately 11,700 pounds harvested during the three months ended June 30, 2021. The decrease in harvested of plant material was due to lower yields in Florida due to poor weather conditions and the introduction of new strains, partially offset by an increase in harvests in Massachusetts and New Jersey from the ramp up of our Fall River and Pleasantville facilities during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021.

*Western region*

For the three months ended June 30, 2022, our sales revenues in the western region were $17.4 million as compared to $19.1 million for the three months ended June 30, 2021, which represents a decrease of 8.8%. The decrease in revenues in the western region is attributable to lower wholesale revenues in Nevada and a slight decrease in retail revenues in Arizona during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021.

For the three months ended June 30, 2022, gross profit was $5.2 million, or 29.9% of sales revenues, as compared to a gross profit of $7.0 million, or 36.7% of sales revenues, for the three months ended June 30, 2021. Gross margins decreased due to higher sales discounts offered in Arizona and higher cultivation costs incurred in Nevada during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021.

During the three months ended June 30, 2022, approximately 2,060 pounds of plant material was harvested in the western region as compared to approximately 1,400 pounds harvested during the three months ended June 30, 2021. The increase in harvested plant material is attributable to higher cultivation yields in Nevada and Arizona during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021.

*Other revenues*

For the three months ended June 30, 2022, other revenues were $0.3 million as compared to $0.4 million for the three months ended June 30, 2021. This decrease is due to lower sales from our CBD business.

*Total operating expenses*

For the three months ended June 30, 2022, our total operating expenses were $65.1 million as compared to $30.4 million for the three months ended June 30, 2021, which represents an increase of 114.3%.

The increase in total operating expenses between the three months ended June 30, 2022 and 2021 is primarily attributable to an increase in our selling, general, and administrative expenses which include a one-time $12.0 million severance payment to our former Interim Chief Executive Officer, Randy Maslow, and a $19.7 million increase in share-based compensation from the grant of restricted stock units to employees and the concurrent cancellation of existing stock options. Deferred professional fees increased by $7.1 million from the closing of the Recapitalization Transaction during the three months ended June 30, 2022 as compared to the three months ended June 30, 2021. The increase in operating expenses was offset by a decrease in our impairment loss of $1.7 million year over year as there were no impairment charges during the three months ended June 30, 2022 as compared to the $1.7 million impairment loss during three months ended June 30, 2021.

For the three months ended June 30, 2022, excise taxes were $0.3 million as compared to $0.5 million for the three months ended June 30, 2021. Excise taxes are included as part of the selling, general, and administrative expenses on the unaudited interim condensed consolidated statements of operations.

*Total other income and expenses*

For the three months ended June 30, 2022, our total other expenses were $322.7 million as compared to $8.3 million for the three months ended June 30, 2021, which represents an increase of 3,786.3%.

The increase in total other expenses between the three months ended June 30, 2022 and 2021 is primarily attributable to aone-time $316.6 million loss on debt extinguishment related to the closing of the Recapitalization Transaction on June 24, 2022. During the three months ended June 30, 2022, accretion expense decreased by $1.9 million as the $40.0 million secured notes we issued on May 14, 2018 (the "Tranche One Secured Notes"), the $20.0 million of secured notes we issued on September 30, 2019 (the "Tranche Two Secured Notes") and the $36.2 million of secured notes we issued on December 20, 2019 (the "Tranche Three Secured Notes") were fully accreted as of May 2021 resulting in no accretion expense on these instruments during the three months ended June 30, 2022, as compared to six weeks of accretion expense during the three months ended June 30, 2021. Other income increased by $0.7 million during the three months ended June 30, 2022 as compared to the three months ended June 30, 2021, as we our now earning rental income from our sublease arrangements.

*Income tax expense*

For the three months ended June 30, 2022, our income tax expense was $5.4 million as compared to $7.9 million for the three months ended June 30, 2021, which represents a decrease of 31.6%. The decrease in income tax expense is a result of our lower taxable income during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021.

**Results of Operations for the Six Months Ended June 30, 2022 and 2021**

*Eastern region*

For the six months ended June 30, 2022, our sales revenues in the eastern region were $50.5 million as compared to $67.8 million for the six months ended June 30, 2021, which represents a decrease of 25.4%. The main drivers for the decrease in revenues are lower retail revenues in Florida and both lower retail and wholesale revenues in Maryland, Massachusetts and Vermont from increased competition and price compression in these markets. This was offset by an increase in retail revenues in New York attributable to the sale of whole flower which was recently approved for sale in the state of New York in October 2021 and from our first quarter of revenues earned from our new dispensary in New Jersey, which opened on May 5, 2022.

For the six months ended June 30, 2022, gross profit was $30.3 million, or 60.0% of sales revenues, as compared to a gross profit of $45.6 million, or 67.2% of sales revenues, for the six months ended June 30, 2021. Gross profit decreased due to lower selling prices in retail dispensaries in Florida, Maryland and Massachusetts as well as lower wholesale prices in Maryland and Massachusetts while production costs and sales discounts continued to increase as a result of nationwide inflation and increased competition in these markets.

During the six months ended June 30, 2022, approximately 19,820 pounds of plant material was harvested in the eastern region as compared to approximately 23,500 pounds harvested during the six months ended June 30, 2021. The decrease in harvested plant material was due to lower yields in Florida due to poor weather conditions and the introduction of new strains, partially offset by an increase in harvests in Massachusetts and New Jersey from the ramp up of our Fall River and Pleasantville facilities during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021.

*Western region*

For the six months ended June 30, 2022, our sales revenues in the western region were $35.1 million as compared to $37.4 million for the six months ended June 30, 2021, which represents a decrease of 6.0%. The decrease in revenue in the western region is attributable to lower wholesale revenues in Nevada and a slight decrease in retail revenues in Arizona during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021.

For the six months ended June 30, 2022, gross profit was $11.6 million, or 33.1% of sales revenues, as compared to a gross profit of $15.6 million, or 41.7% of sales revenues, for the six months ended June 30, 2021. Gross margins decreased due to higher sales discounts offered in Arizona and from higher cultivation costs incurred in Nevada during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021.

During the six months ended June 30, 2022, approximately 3,670 pounds of plant material was harvested in the western region as compared to approximately 3,100 pounds harvested during the six months ended June 30, 2021. The increase in harvested plant material is attributable to higher cultivation yields in both Arizona and Nevada during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021.

*Other revenues*

For the six months ended June 30, 2022, other revenues were $0.6 million as compared to $0.8 million for the six months ended June 30, 2021. This decrease is due to lower sales from our CBD business.

*Total operating expenses*

For the six months ended June 30, 2022, our total operating expenses were $97.0 million as compared to $61.7 million for the six months ended June 30, 2021, which represents an increase of 57.2%.

The increase in total operating expenses between the six months ended June 30, 2022 and 2021 is primarily attributable to an increase in our selling, general, and administrative expenses which include: a one-time $12.0 million severance payment to our former Interim Chief Executive Officer, Randy Maslow and a $19.5 million increase in share-based compensation from the grant of restricted stock units to employees and directors and the concurrent cancellation of existing stock options. Deferred professional fees increased by $7.1 million from the closing of the Recapitalization Transaction during the six months ended June 30, 2022 as compared to the six months ended June 30, 2021. Further, there was an increase in our depreciation and amortization expenses of $1.1 million as our depreciable fixed asset base increased from $109.7 million as of June 30, 2021 to $141.2 million as of June 30, 2022. The increase in operating expenses was offset by a decrease in our impairment loss of $1.7 million year over year as there were no impairment charges during the six months ended June 30, 2022 as compared to the $1.7 million impairment loss during six months ended June 30, 2021.

For the six months ended June 30, 2022 and 2021, excise taxes were $0.5 million. Excise taxes are included as part of the selling, general, and administrative expenses on the unaudited interim condensed consolidated statements of operations.

*Total other income and expenses*

For the six months ended June 30, 2022, our total other expenses were $318.6 million as compared to total other expenses of $18.9 million for the six months ended June 30, 2021, which represents an increase of 1,588.5%.

The increase in total other income and expenses between the six months ended June 30, 2022 and 2021 is primarily attributable aone-time $316.6 million loss on debt extinguishment related to the closing of the Recapitalization Transaction on June 24, 2022. Accretion expense decreased by $6.0 million as our Tranche One Secured Notes, Tranche Two Secured Notes and Tranche Three Secured Notes were fully accreted as of May 2021 resulting in no accretion expense on these instruments during the six months ended June 30, 2022, as compared to five months of accretion expense for these instruments taken during the six months ended June 30, 2021. Furthermore, other income increased by $11.7 million during the six months ended June 30, 2022 compared to the six months ended June 30, 2021 primarily from a fair value gain net of tax of $10.5 million from the noncash consideration provided as part of the acquisition of MPX New Jersey LLC ("MPX NJ") and from sublease income earned from our sublease arrangements.

*Income tax expense*

For the six months ended June 30, 2022, our income tax expense was $10.3 million as compared to $15.2 million for the six months ended June 30, 2021, which represents a decrease of 32.3%. The decrease in income tax expense is a result of our lower taxable income during the six months ended June 30, 2022, as compared to six months ended June 30, 2021.

**Liquidity and Capital Resources**

As of June 30, 2022, we held unrestricted cash of $29.8 million (December 31, 2021 - $13.2 million), an accumulated deficit of $1,185.3 million (December 31, 2021 - $801.6 million), and a working capital deficit of $38.4 million (December 31, 2021 - $231.7 million). In assessing our liquidity, we monitor our cash on-hand and our operating expenditures required to execute ourday-to-day operations and our long-term strategic plans. To date, we have financed our operations primarily through equity and debt financings and our cash flows from operations and we anticipate that we will need to raise additional capital to fund our operations in the future. We expect to finance our operating activities through a combination of additional financings and cash flows from our operations. However, we may be unable to raise additional funds when needed and on favorable terms, or at all, which may have a negative impact on our financial condition and could force us to curtail or cease our operations. Furthermore, the terms of certain of our debt instruments impose certain restrictions on our operating and financing activities, including, but not limited to, our ability to incur certain additional indebtedness and our ability to issue shares or convertible securities. Even if we believe we have sufficient funds for our current or future operating plans, we may seek additional capital due to favorable market conditions or strategic considerations.

*Going Concern*

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

We believe that the consummation of the Recapitalization Transaction will provide the necessary funding for us to continue funding our operations in the future. Further, the consummation of the Recapitalization Transaction resulted in lower interest rates on the June Secured Debentures, June Unsecured Debentures and the $11.0 million senior secured bridge notes issued by iAnthus New Jersey, LLC, and allows interest to be paid-in-kind. As the Recapitalization Transaction is closed, we are now able to seek additional debt or equity financings in the future. As such, we believe we may generate positive cash flows in the future and continue as a going concern for a period of no less than 12 months from the date of these unaudited interim condensed consolidated financial statements. The unaudited interim condensed consolidated financial statements included in this Quarterly Report on Form 10-Q do not include any adjustments that might be necessary if we are unable to continue as a going concern.

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

**Cash Flow for the Six Months Ended June 30, 2022 as Compared to the Six Months Ended June 30, 2021**

Operating Activities

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

Net cash used in operating activities during the six months ended June 30, 2022 was $5.7 million as compared to net cash provided from operating activities of $12.4 million for the six months ended June 30, 2021. The reduction in our net cash provided from operating activities was primarily attributable to our net loss of $383.7 million, partially offset by $316.6 million from loss on debt extinguishment from the consummation of the Recapitalization Transaction, $22.8 million in share-based compensation as a result of the issuance of restricted stock units and concurrent cancellation of all existing stock options, $16.4 million of depreciation and amortization expense, $11.7 million in interest expense, a $10.5 million gain from nonmonetary consideration from the MPX NJ acquisition, $1.6 million of accretion expense, and $18.2 million from changes in operating assets and liabilities items during the six months ended June 30, 2022.

Changes in other operating assets for the six months ended June 30, 2022 include an increase in inventory of $0.4 million due to lower sales during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021, and an increase of $0.7 million related to the recognition of right-of-use assets during the six months ended June 30, 2022.

Changes in other operating liabilities for the six months ended June 30, 2022 include an increase in accrued and other current liabilities of $20.2 million due to accrued income taxes for the period, interest and recapitalization fees due upon closing of the Recapitalization Transaction on June 24, 2022, and a decrease in accounts payable of $0.9 million.

As we continue to expand our operations and as these operations become more established, we continue to expect cash flow to be provided from our operations, and we intend to place less reliance on financing from other sources to fund our operations. We have negative cash flows from operations in 2022 and therefore no assurance can be given that we will have positive cash flows in the future.

Investing Activities

Net cash used in investing activities during the six months ended June 30, 2022, was $4.0 million as compared to $10.3 million during the six months ended June 30, 2021. The decrease in cash used in investing activities was primarily attributable to lower cultivation and dispensary construction expenditures of $4.7 million during the three months ended June 30, 2022 as compared to $9.6 million during the six months ended June 30, 2021. In addition, during the six months ended June 30, 2022, we loaned $0.1 million to MPX NJ as compared to $0.6 million during the six months ended June 30, 2021.

Cash flow provided from investing activities during the six months ended June 30, 2022 was $0.9 million which was a result from the sale of certain property, plant and equipment of $0.9 million during the six months ended June 30, 2022 compared to $Nil, during the six months ended June 30, 2021.

Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2022 was $24.2 million as compared to $10.3 million for the six months ended June 30, 2021. During the six months ended June 30, 2022, we received proceeds from the issuance of the Additional Secured Notes of $24.3 million which was partially offset by less than $0.1 million on repayment of debt. This compares to the issuance of the Senior Secured Bridge Notes in the principal amount of $11.0 million, offset by related debt issuance costs of $0.7 million and repayment of certain debt of less than $0.1 million during the six months ended June 30, 2021.

**Related Party Transactions**

As part of the acquisition of MPX Bioceutical Corporation on February 5, 2019, we acquired a related party receivable of $0.7 million due from a company owned by a former director and officer, Elizabeth Stavola. The related party receivable was converted into a loan facility of up to $10.0 million, which accrued interest at the rate of 16.0%, compounded annually. Interest was due upon maturity of the loan on December 31, 2021. During the year ended December 31, 2021, we exercised our right to convert the principal balance of the loan and accrued interest into a 99% equity interest in MPX NJ and exercised our option to acquire the remaining 1% of MPX NJ, which was approved by the New Jersey Cannabis Regulatory Commission on January 7, 2022. We recorded acquisition costs of $0.1 million and $0.3 million within selling, general and administrative expenses on the unaudited interim condensed consolidated statement of operations for the three and six months ended June 30, 2022 and 2021, respectively. As of June 30, 2022, the balance of such facility was $Nil (December 31, 2021 – $4.6 million), which includes accrued interest of $Nil (December 31, 2021 - $0.9 million). The related party balances are presented in other long-term assets on the unaudited interim condensed consolidated balance sheets.

On June 30, 2017, we entered into a loan facility with our former director and officer, Hadley Ford (“Ford”). The total loan facility was up to C$0.5 million (equivalent to $0.4 million) and accrued interest at the rate of 2.5%. Interest was due upon maturity of the loan on June 30, 2021. As part of Ford’s termination agreement, the total loan facility was offset by compensation owed to Ford of $0.5 million during the first quarter of 2021. As of June 30, 2022, the outstanding balance of the facility including accrued interest was $Nil (December 31, 2021 - $Nil).

Upon the closing of the Recapitalization Transaction, certain of the Company’s lenders held greater than 10.0% of the voting interests in the Company and therefore are classified as related parties. For further discussion, refer to Note 5 of the unaudited interim condensed consolidated financial statements included in Item I of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022.

Effective as of May 6, 2022 (the “Resignation Date”), Randy Maslow, our Interim Chief Executive Officer and President and a member of the Board of Directors, resigned from his executive positions, including all positions with our subsidiaries and its affiliates, and from our Board of Directors and committees. In connection with the resignation, we executed a separation agreement (the “Separation Agreement”) with Mr. Maslow pursuant to which Mr. Maslow will receive certain compensation and benefits valued to substantially equal the value of entitlements he would have received under Section 4(g) of his employment agreement. Specifically, Mr. Maslow will receive total cash compensation in the amount of approximately $12.2 million (the “Separation Payment”), of which $5.1 million was paid out on May 6, 2022 (made up, in part of a portion of severance payment of approximately $4.8 million, and unpaid 2021 bonus of $300,000). The remainder of the Separation Payment was to be paid out in equal installments of approximately $0.9 million per month over the next eight months following the Resignation Date, which became accelerated upon the closing of the Recapitalization Transaction. As of June 30, 2022, the total remaining balance owed to Mr. Maslow was $5.3 million, which is presented in accrued and other liabilities on the unaudited interim condensed consolidated balance sheets. The total outstanding balance of the Separation Payment owed to Mr. Maslow was paid in full as of July 15, 2022. Under the terms of the Separation Agreement, we will continue to pay the monthly premium for Mr. Maslow’s continued participation in our health and dental insurance benefits pursuant to COBRA for one year from the Resignation Date. Mr. Maslow’s compensation and benefits under the Separation Agreement also included the extension of exercise period of options to acquire our common shares, until the earlier of (i) five years from the Resignation Date; (ii) the original expiration dates of the applicable option; or (iii) the closing of the Recapitalization Transaction. In accordance with the terms of the Separation Agreement, Mr. Maslow’s options to acquire our common shares expired as of the Closing Date of the Recapitalization Transaction. Mr. Maslow will continue to serve in a consulting role for a period of six months following the Resignation Date (provided that we may extend such period by an additional six months) at a base compensation of $25,000 per month. During the three and six month ended June 30, 2022, we paid less than $0.1 million and $0.1 million, respectively, to Mr. Maslow in relation to consulting services provided (June 30, 2021 - $Nil and $Nil, respectively).

Pursuant to the Secured DPA, we have a related party payable of $6.3 million due to certain of the New Secured Lenders, including Gotham Green Fund 1, L.P., Gotham Green Fund 1 (Q), L.P., Gotham Green Fund II, L.P., Gotham Green Fund II (Q), L.P., Oasis Investment Master II Fund LTD., Senvest Global (KY), LP, and Senvest Master Fund, LP, for certain out-of-pocket costs, charges, fees, taxes and other expenses incurred by the New Secured Lenders in connection with the closing of the Recapitalization Transaction (the “Deferred Professional Fees”). These New Secured Lenders held greater than 10% of our outstanding common shares upon the closing of the Recapitalization Transaction and are therefore considered to be related parties. We have until December 31, 2022, to pay the Deferred Professional Fees ratably based on the amount of each New Secured Lender’s Deferred Professional Fees. The Deferred Professional Fees shall accrue simple interest at the rate of 12.0% from the Closing Date until December 31, 2022. Beginning with the first business day of the month following December 31, 2022, interest shall accrue on the Deferred Professional Fees at the rate of 20.0% calculated on a daily basis and is payable on the first business day of every month until the Deferred Professional Fees and accrued interest thereon is paid in full. As of June 30, 2022, the outstanding related party portion of the Deferred Professional Fees including accrued interest was $6.3 million (December 31, 2021 – $Nil). The related party balance is presented in accrued and other current liabilities on the unaudited interim condensed consolidated balance sheets.

**Critical Accounting Policies and Accounting Estimates**

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

Our significant accounting policies and estimates are described in Note 2, "Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 filed with the SEC on March 18, 2022 which describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. We believe the following critical accounting policies govern the more significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Other than those noted below, there have been no material changes to our critical accounting policies and estimates as from the date upon which we filed our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 with the SEC.

*Business Combinations*

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

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

*Debt Modifications and Extinguishments*

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

**JOBS Act**

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

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

Subject to certain conditions set forth in the JOBS Act, as an "emerging growth company," we intend to rely on certain of these exemptions, including, without limitation, (i) providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002, as amended, and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an "emerging growth company" until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1.07 billion or more; (ii) the last day of our fiscal year following the fifth anniversary of the date of our initial public offering; (iii) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined inRule12b-2of the Exchange Act.

## ITEM 4. CONTROLS AND PROCEDURES.

**Evaluation of Disclosure Controls and Procedures**

We maintain "disclosure controls and procedures," as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to its management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Interim Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Interim Chief Executive Officer and Chief Financial Officer have concluded that as of June 30, 2022, our disclosure controls and procedures were not effective due material weakness, which could adversely affect our ability to record, process, summarize, and report financial data. Such weaknesses include valuation of inventory, sales and expense cutoff for certain subsidiaries, accounting for business combinations, accounting for debt modifications and extinguishments, and our provisioning of user access rights, password lengths, certain backup/recovery controls and change management controls.

We have developed a plan to remediate the material weaknesses, which includes implementing improved processes and internal controls to ensure the proper application of accounting practices and guidance. In addition, we intend to dedicate accounting resources to assessing our existing internal controls and to develop a plan to remediate these material weaknesses by year end.

**Changes in Internal Control**

Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

**ITEM 1. LEGAL PROCEEDINGS.**

From time to time, we may become involved in various lawsuits and legal proceedings. Litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business. Except as set forth herein, we are currently not aware of any such legal proceedings or claims that will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

**Roberts Matter**

In October 2018, Craig Roberts and Beverly Roberts (the "Roberts") and the Gary W. Roberts Irrevocable Trust Agreement I, Gary W. Roberts Irrevocable Trust Agreement II, and Gary W. Roberts Irrevocable Trust Agreement III (the "Roberts Trust" and together with the Roberts, the "Roberts Plaintiffs") filed two separate but similar declaratory judgment actions in the Circuit Court of Palm Beach County, Florida against GrowHealthy Holdings, LLC ("GrowHealthy Holdings") and the Company in connection with the acquisition of substantially all of GrowHealthy Holdings' assets by the Company in early 2018. The Roberts Plaintiffs sought a declaration that the Company must deliver certain share certificates to the Roberts without requiring them to deliver a signed Shareholder Representative Agreement ("SRA") to GrowHealthy Holdings, which delivery was a condition precedent to receiving the Company share certificates and required by the acquisition agreements between GrowHealthy Holdings and the Company. In January 2019, the Circuit Court of Palm Beach County denied the Roberts Plaintiffs' motion for injunctive relief, and the Roberts Plaintiffs signed and delivered the SRA forms to GrowHealthy Holdings while reserving their rights to continue challenging the validity and enforceability of the SRA. The Roberts Plaintiffs thereafter amended their complaints to seek monetary damages in the aggregate amount of $22.0 million plus treble damages. On May 21, 2019, the court issued an interlocutory order directing the Company to deliver the share certificates to the Roberts Plaintiffs, which the Company delivered on June 17, 2019, in accordance with the court's order. On December 19, 2019, the Company appealed the court's order directing delivery of the share certificates to the Florida Fourth District Court of Appeal, which appeal was denied per curiam. On October 21, 2019, the Roberts Plaintiffs were granted leave by the Circuit Court of Palm Beach County to amend their complaints in order to add purported claims for civil theft and punitive damages, and on November 22, 2019, the Company moved to dismiss the Roberts Plaintiffs' amended complaints. On May 1, 2020, the Circuit Court of Palm Beach County heard arguments on the motions to dismiss, and on June 11, 2020, the court issued a written order granting in part and denying in part the Company's motion to dismiss. Specifically, the order denied the Company's motion to dismiss for lack of jurisdiction and improper venue; however, the court granted the Company's motion to dismiss the Roberts Plaintiffs' claims for specific performance, conversion and civil theft without prejudice. With respect to the claim for conversion and civil theft, the Circuit Court of Palm Beach County provided the Roberts Plaintiffs with leave to amend their respective complaints. On July 10, 2020, the Roberts Plaintiffs filed further amended complaints in each action against the Company including claims for conversion, breach of contract and civil theft including damages in the aggregate amount of $22.0 million plus treble damages, and on August 13, 2020, the Company filed a consolidated motion to dismiss such amended complaints. On October 26, 2020, Circuit Court of Palm Beach County heard argument on the consolidated motion to dismiss, denied the motion and entered an order to that effect on October 28, 2020. Answers on both actions were filed on November 20, 2020 and the parties commenced discovery. On September 9, 2021, the Roberts Plaintiffs filed a motion to consolidate the two separate actions, which motion was granted on October 14, 2021. On August 6, 2020, the Roberts filed a lawsuit against Randy Maslow, the Company's now former Interim Chief Executive Officer, President and director, in his individual capacity (the "Maslow Complaint"), alleging a single count of purported conversion. The Maslow Complaint was not served on Randy Maslow until November 25, 2021, and the allegations in the Maslow Complaint are substantially similar to those allegations for purported conversion in the complaints filed against the Company. On March 28, 2022, the court consolidated the action filed against Randy Maslow with the Roberts Plaintiffs' action for discovery and trial purposes. As a result, the court vacated the matter's initial trial date of May 9, 2022. The case has not been reset for trial yet. On April 22, 2022, the parties attended a court required mediation, which was unsuccessful. On May 6, 2022, the Circuit Court of Palm Beach County granted Randy Maslow's motion to dismiss the Maslow Complaint. On May 19, 2022, the Roberts filed a second amended complaint against Mr. Maslow ("Amended Maslow Complaint"). On June 3, 2022, Mr. Maslow filed a motion to dismiss the Amended Maslow Complaint, which motion remains pending before the court.

**Oasis Matter**

On February 27, 2020, the Company filed a statement of claim in the OSCJ against Oasis Investments II Master Fund Ltd. ("Oasis"), an Unsecured Lender. In response to the Company's statement of claim, Oasis filed a statement of defense and counterclaim against the Company on March 13, 2020, alleging that the Company breached certain debt covenants and an order directing the Company to immediately repay Oasis its $25,000,000 investment plus applicable interest, expenses and fees, among other damages. On July 15, 2020, in connection with the Recapitalization Transaction, the Company agreed to discontinue with prejudice its claim against Oasis which was filed on February 27, 2020. In connection with the closing of the Recapitalization Transaction, Oasis discontinued its counterclaim with prejudice.

**Plan of Arrangement**

On August 20, 2021, the Applicants filed the Application with the OSCJ, which sought, among other things, a declaration that the Outside Date for the closing of the Recapitalization Transaction be extended to the date on which any regulatory approval or consent condition to implementation of the Plan of Arrangement is satisfied or waived. On August 24, 2021, the Company and Applicants appeared for a case conference before the OSCJ at which the OSCJ issued the Stay Order that required the parties to the Restructuring Support Agreement to maintain the status quo until the hearing on September 23, 2021. Specifically, the Stay Order provided that the parties shall remain bound by the Restructuring Support Agreement and not take any steps to advance or impede the regulatory approval process for the closing of the Recapitalization Transaction or otherwise have any communication with the applicable state-level regulators concerning the Recapitalization Transaction or the other counterparties to the Restructuring Support Agreement. On September 23, 2021, the parties appeared before the OSCJ for a hearing on the Application. Following this hearing, the OSCJ issued an endorsement that extended the Stay Order from September 23, 2021 until 48 hours after the release of the OSCJ's decision on the merits of the Application. On October 12, 2021, the OSCJ issued the Decision granting the Applicant's relief sought in the Application. Specifically, the OSCJ granted the declaration sought by the Applicants and ordered that the Outside Date be extended to the date on which any regulatory approval or consent condition to implementation of the Plan of Arrangement is satisfied or waived. On November 10, 2021, the Company filed a Notice of Appeal with the Ontario Court of Appeal. The Company intends to discontinue such appeal with prejudice now that the Recapitalization Transaction has closed.

**Claim by Maryland License Holder**

On May 23, 2022, CGX Life Sciences, Inc. ("CGX"), a wholly-owned subsidiary of the Company, filed a demand for arbitration (the "CGX Arbitration") with the American Arbitration Association ("AAA") against LMS Wellness, Benefit LLC ("LMS") and its 100% owner, William Huber ("Huber" and together with LMS, the "Defendants") for various breaches under the option agreements entered into between CGX and LMS, on the one hand, and CGX and Huber on the other (collectively, the "Option Agreements"). Specifically, CGX is seeking: (i) an order finding the Defendants in breach of the Option Agreements and directing specific performance by the Defendants of their obligations under the Option Agreements to complete the sale and transfer of LMS to CGX; (ii) an order either tolling or extending the closing date under the Option Agreements; (ii) an order requiring Huber to restore LMS' bank account of all sums withdrawn for the payment of contracts entered into in breach of the Option Agreements; and (iii) an order prohibiting Huber from withdrawing any further funds from LMS' bank account. On June 8, 2022, the Defendants filed an Answering Statement, denying the allegations raised by CGX and sent a notice to CGX, purporting to terminate the Option Agreements.

In addition, on June 8, 2022, LMS filed a demand for arbitration (the "S8 Arbitration") with the AAA against S8 Management, LLC ("S8"), alleging that S8 breached the Amended and Restated Management Services Agreement (the "MSA") entered into between LMS and S8 on March 12, 2018. On June 24, 2022, the Defendants filed Motion to Consolidate the CGX Arbitration and S8 Arbitration. On July 5, 2022, CGX filed an opposition to the Defendants' Motion to Consolidate and a cross-Motion to Stay the S8 Arbitration to allow the CGX Arbitration to proceed first. On July 26, 2022, the parties attended a preliminary conference with the arbitrator, at which conference the arbitrator preliminarily granted the Defendants' Motion to Consolidate and denied CGX's cross-Motion to Stay the S8 Arbitration.

## ITEM 1A. RISK FACTORS.

**Risks Related to Our Company**

***We may not be able to execute our merger and acquisition strategy successfully.***

Our business plan depends in part on our ability to continue merging with or acquiring other businesses in the cannabis industry, including cultivators, processors, manufacturers and dispensaries.

Any future mergers or acquisitions, or similar transactions, that we execute will be subject to conditions, which may include, without limitation, our satisfactory completion of due diligence, negotiation and finalization of formal legal documents, financing and approval from our Board of Directors and requisite regulatory approvals. As a result, there can be no assurance that we will complete any such transactions. If we do not complete such transactions, we may be subject to a number of risks, including, but not limited to:

- a decline in the price of our common shares to the extent that the current market price reflects a market assumption that these transactions will be completed;
- the payment of certain costs related to each transaction, such as legal, accounting and consulting fees, even if a transaction is not completed; and
- an absence of assurance that such opportunities will be available to us in the future, or at all.

Furthermore, any future merger or acquisition may result in the diversion of management's attention from other business concerns. In addition, such transactions may be dilutive to our financial results and/or result in impairment charges and write-offs. Such transactions could involve other risks, including the assumption of unidentified or unknown liabilities, disputes or contingencies, for which we, as a successor owner, may be responsible, and/or changes in the industry, location, or regulatory or political environment in which these investments are located, that our due diligence review may not adequately uncover and that may arise after entering into such transactions.

The success of any future acquisition will depend upon, among other things, our ability to integrate acquired personnel, operations, products and technologies into our organization effectively, to retain and motivate key personnel of acquired businesses, to retain their customers and maintain product quality.

***We compete for market share with other companies, which may have longer operating histories, more financial resources and more manufacturing and marketing experience than we do.***

We face and expect to continue to face, competition from other companies some of which may have longer operating histories, more financial resources, more experience and greater brand recognition than us. Increased competition by larger and well-financed competitors and/or competitors that have longer operating histories, greater brand recognition and more manufacturing and marketing experience than us could have a material adverse effect on our business, financial condition and results of operations. As we operate in an early stage industry, we expect to face additional competition from new entrants. Specifically, we expect to face additional competition from new market entrants that are granted licenses within a particular state in which we operate or existing license holders which are not yet active in the industry. If a significant number of new licenses are granted, we may experience increased competition for market share and downward price pressure on our products as new entrants increase production, which could have a material adverse effect on our business.

In addition, if the number of users of cannabis increases, the demand for products will increase and we expect that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, we will require a continued high level of investment in research and development together with marketing, sales and other support. We may not have sufficient resources to maintain research and development and sales efforts on a competitive basis, which could have a material adverse effect on our business, financial condition and results of operations.

***Our U.S. tax classification could have a material adverse effect on our financial condition and results of operations.***

Although we are, and will continue to be a Canadian corporation, we are classified as a U.S. domestic corporation for U.S. federal income tax purposes under section 7874(b) of the U.S. Internal Revenue Code of 1986, as amended (the "U.S. Tax Code") and are subject to U.S. federal income tax on our worldwide income. However, for Canadian tax purposes, regardless of any application of section 7874 of the U.S. Tax Code, we are treated as a Canadian resident corporation. As a result, we are subject to taxation in both Canada and the United States, which could have a material adverse effect on our financial condition and results of operations. It is unlikely that we will pay any dividends on our common shares in the foreseeable future. However, dividends received by shareholders who are residents of Canada for purposes of the Income Tax Act (Canada) (the "Canadian Tax Act") will generally be subject to a 30% U.S. withholding tax. Any such dividends may not qualify for a reduced rate of withholding tax under the U.S.-Canada income tax treaty ("U.S.-Canada Treaty"). In addition, a foreign tax credit or a deduction in respect of foreign taxes may not be available in respect of such taxes. Dividends received by shareholders resident in the United States will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax under the Canadian Tax Act. In the event we pay any dividends, they will be characterized as U.S. source income for purposes of the foreign tax credit rules under the U.S. Tax Code. Accordingly, shareholders resident in the United States generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, such shareholders have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax. Dividends received by shareholders that are residents of neither Canada nor the United States generally will be subject to U.S. withholding tax and Canadian withholding tax. These dividends may not qualify for a reduced rate of U.S. withholding tax under any income tax treaty otherwise applicable to our shareholders, subject to examination of the relevant treaty. Since we are classified as a U.S. domestic corporation for U.S. federal income tax purposes under section 7874(b) of the U.S. Tax Code, our common shares will be treated as shares of a U.S. domestic corporation and shareholders will be subject to the relevant provisions of the U.S. Tax Code and/or the U.S. Treaty.

Each shareholder should seek tax advice, based on such shareholder's particular facts and circumstances, from an independent tax advisor, including, without limitation, in connection with our classification as a U.S. domestic corporation for U.S. federal income tax purposes under section 7874(b) of the U.S. Tax Code, the application of the U.S. Tax Code, the application of the U.S.-Canada Treaty, the application of U.S. federal estate and gift taxes, the application of U.S. federal tax withholding requirements, the application of U.S. estimated tax payment requirements and the application of U.S. tax return filing requirements.

***We may incur significant tax liabilities under section 280E of the U.S. Tax Code.***

Section 280E of the U.S. Tax Code prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the CSA). The Internal Revenue Service of the United States ("IRS") has invoked section 280E of the U.S. Tax Code in tax audits against various cannabis businesses in the United States that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly and the bulk of operating costs and general administrative costs are not permissible deductions. As a result, we will have an effective tax rate in the U.S. significantly higher than the rate typically applicable to U.S. corporations.

***Some of our subsidiaries are delinquent in the payment of federal and state income taxes and the IRS has assessed interest and penalties with respect to such delinquent payments which have a material adverse effect on our business.***

Some of our subsidiaries have been unable to pay their United States federal and state income taxes for the 2020 tax year and no estimated United States federal or state income tax payments have been made with respect to the 2021 tax year. Those subsidiaries currently owe approximately $13,124,460 for 2020 and $24,199.412 for 2021 in United States federal income taxes and $495,303 for 2020 and $4,279,592 for 2021 in state income taxes. In addition, the IRS has assessed against those subsidiaries approximately $778,059 in interest and penalties, and state taxing authorities have assessed $694,801in interest and penalties against those subsidiaries. Interest and penalties will continue to accrue for as long as such taxes, interest and penalties remain unpaid.

***If our goodwill, other intangibles or fixed assets become impaired, we may be required to record a significant charge to earnings.***

When we acquire a business, a substantial portion of the purchase price of the acquisition can be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill and other identifiable intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. As of December 31, 2021, we held intangible assets, including cannabis operations licenses, trade names and brand intangibles, net of amortization of $139.1 million.

Under U.S. generally accepted accounting principles ("GAAP"), the carrying amount of our goodwill is tested at least annually for impairment on December 31of each fiscal year. On each quarter end date, we assess whether recent events or changes in circumstances constitute a triggering event requiring us to assess whether goodwill, other intangibles or fixed assets may be impaired before the annual testing date. Occurrences that may constitute a change in circumstances include, but are not limited to, a decline in our share price and market capitalization, decreases in expected future cash flows and slower growth rates in our industry. We review our fixed assets and other finite life intangibles for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. As a result of our annual test, we recognized an impairment loss on goodwill and intangible assets of $7.4 million and $203.5 million for the years ended December 31, 2021 and 2020, respectively.

Under GAAP, if we determine that goodwill, other intangibles or fixed assets are impaired, we will be required to write down these assets. Any write-down would have a negative effect on our consolidated financial statements. As a result of the continued decrease in our share price during 2020, our share price declined below net book value per share. As a result, we were required to record a significant impairment loss to reduce the amount of goodwill recorded in our financial statements for the year ended December 31, 2020 to $Nil. If the share price continues to remain below the net book value per share, or other negative business factors arise, we may be required to perform additional impairment analyses before our next annual testing date which could result in additional impairment charges. During 2021 as our stock price continued to be below net book value per share, we performed an impairment assessment of each reporting unit, which resulted in an impairment loss on intangibles, right-of-use assets and property, plant and equipment of $5.5 million in our CBD business for the year ended December 31, 2021.

***We rely on the operators of our subsidiaries to execute their business plans and operations.***

We rely on operators of our subsidiaries to execute on their business plans, produce cannabis products and otherwise conduct day to day operations. As a result, our cash flows are dependent upon the ability of our subsidiaries to operate successfully. The operators of our subsidiaries have significant influence over the results of operations. Further, our interests and the interests of such operators may not always be aligned. As a result, our cash flows are dependent upon the activities of the operators of our subsidiaries, which creates the risk that at any time those third parties may:

- have business interests or targets that are inconsistent with ours;
- take action contrary to our policies or objectives;
- be unable or unwilling to fulfill their obligations under their agreements with us; or
- experience financial, operational or other difficulties, including insolvency, which could limit or suspend their ability to perform their obligations.

In addition, payments may flow through our subsidiaries and there is a risk of delay and additional expense in receiving such payments. Our failure to receive payments in a timely fashion, or at all, may have a material adverse effect on us. In addition, we must rely, in part, on the accuracy and timeliness of the information we receive from our subsidiaries and use such information in our analyses, forecasts and assessments relating to our business. If the information provided to us by our subsidiary contains material inaccuracies or omissions, our ability to accurately forecast or achieve such subsidiary's stated objectives or satisfy our reporting obligations may be materially impaired.

***We have invested and may continue to invest in securities of private companies and may hold a minority interest in such companies, which may limit our ability to sell or otherwise transfer those securities and direct management decisions of such companies.***

We have invested and may continue to invest in securities of private companies and may hold a minority interest in such companies. In some cases, we may be restricted for a period by contract or applicable securities laws from selling or otherwise transferring those securities. In addition, any securities of private companies in which we invest may not have a liquid market and the inability to sell those securities on a timely basis or at acceptable prices may impair our ability to exit the investments when we consider appropriate. Further, to the extent we hold a minority interest in certain companies, we may be limited in our ability to direct management decisions of such companies.

***We have previously experienced negative cash flow from operating activities.***

We have previously experienced negative cash flow from operating activities. Although we believe we will continue to have positive cash flow from operating activities in future periods, we cannot provide assurance that we will achieve sufficient revenues from sales of cannabis, CBD and/or other related products to maintain profitability or positive cash flow from operating activities. Our inability to maintain profitability or positive cash flow from operating activities could have a material adverse effect on our business, financial condition and results of operations.

***There is substantial doubt about our ability to continue as a going concern.***

We do not believe that our current cash on hand will be sufficient to fund our projected operating requirements. This raises substantial doubt about our ability to continue as a going concern. In addition, the report of our independent registered public accounting firm on our audited financial statements for each of the two years ended December 31, 2021 and 2020 contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our audited financial statements do not include any adjustments that might result from the outcome of the uncertainty regarding our ability to continue as a going concern. This going concern opinion could materially limit our ability to raise additional funds through the issuance of equity or debt securities or otherwise. If we cannot continue as a going concern, our investors may lose their entire investment in our securities. Until we can generate significant cash flows, we expect to satisfy our future cash needs through debt or equity financing; however, there can be no assurance that such capital will be available, or if available, that it will be on terms acceptable to us.

***We are a holding company and a majority of our assets are the capital stock of our subsidiaries.***

We are a holding company and the majority of our assets are the capital stock of our subsidiaries. As a result, investors are subject to the risks attributable to our subsidiaries. As a holding company, we conduct substantially all of our business through our subsidiaries, which generate substantially all of our revenues. Consequently, our cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of our subsidiaries and the distribution of those earnings to us. The ability of our subsidiaries to make distributions will depend on their operating results and will be subject to, among other things, applicable laws and regulations which require that solvency and capital standards be maintained and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before we can receive any distributions from our subsidiaries.

***We may face limitations on ownership of cannabis licenses.***

In certain states, the cannabis laws and regulations limit not only the number of cannabis licenses issued, but also the number of cannabis licenses that one person or entity may own. Such limitations on the ownership of additional licenses within certain states may limit our ability to expand in such states.

***We believe that we have and will seek to maintain adequate insurance coverage in respect of risks customarily insured by other companies in our industry; however, premiums for such insurance may not continue to be on terms acceptable to us and there may be coverage limitations and other exclusions that may not be sufficient to cover potential liabilities that we may be exposed to.***

We believe that we have, and will seek to maintain, adequate coverage in respect of risks customarily insured by other companies in our industry, including insurance to protect our assets, operations and employees. While we do not maintain crop insurance and our ability to obtain insurance coverage may be limited because of our industry, we believe our insurance coverage addresses all material risks to which we are exposed and is adequate and customary in our current state of operations. However, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which we may be exposed. In addition, no assurance can be given that such insurance will be adequate to cover our liabilities or will be generally available in the future or, if available, that premiums will be on terms acceptable to us. If we were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if we were to incur such liability at a time when we are not able to obtain liability insurance, it could have a material adverse effect on our business, financial condition and results of operations.

***Our cannabis cultivation operations are vulnerable to rising energy costs and dependent upon key inputs.***

Our cannabis cultivation operations consume considerable amounts of energy making us vulnerable to rising energy costs. Rising or volatile energy costs could have a material adverse effect on our business, financial condition and results of operations. In addition, our business is dependent on a number of key inputs and their related costs, including raw materials and supplies related to our growing operations, as well as electricity, water and other utilities. Some of these inputs may, in the future, be available only from a single supplier or a limited group of suppliers. In such event, if a sole source supplier were to go out of business, we may be unable to find a replacement for such source in a timely manner, or at all. If such sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to us or our subsidiaries in the future. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs or our inability to secure required supplies and services or to do so on appropriate terms could have a material adverse effect on our business, financial condition and results of operations.

***We may not be able to transport our products to customers in a safe and efficient manner.***

We depend on fast and efficient third-party transportation services to distribute our hemp-based products. Any prolonged disruption of third-party transportation services could have a material adverse effect on our sales volumes or our end users' satisfaction with our services. Rising costs associated with third-party transportation services used by us to ship our hemp-based products may also adversely impact our profitability and more generally our business, financial condition and results of operations.

The security of products during transportation will be of the utmost concern. A breach of security during transport or delivery could result in the loss of high-value product. A failure to take steps necessary to ensure the safekeeping of cannabis and hemp could also have an impact on our ability to operate under our licenses, to renew or receive amendments to such licenses, or to receive required new licenses.

Notwithstanding the passage of the 2018 Farm Bill, local law enforcement officials in Oklahoma and Idaho previously seized shipments of hemp traveling through those states on the grounds that (i) the products qualified as marijuana and were illegal under these states' controlled substances laws and (ii) the interstate transportation provision of the 2018 Farm Bill had not yet taken effect. Criminal charges were also filed. Despite the intent of the 2018 Farm Bill to allow interstate transportation of hemp products—even through states lacking hemp programs—the novelty of the 2018 Farm Bill hemp provision and conflicts among state laws, has created confusion and caused differing interpretations among local authorities. Accordingly, there remains risk of enforcement even when activity is lawful under federal and state law. Notably, on May 28, 2019, the USDA Office of General Counsel issued a legal opinion concluding that, among other things, states may not prohibit the interstate transportation or shipment of hemp, regardless of whether the hemp is produced under the 2014 Farm Bill or the 2018 Farm Bill. This opinion is not binding and certain states have already indicated that they do not intend to follow it.

***The cannabis and hemp industry is subject to the risks inherent in an agricultural business, including the risk of crop failure.***

The growing of cannabis and hemp is an agricultural process. As such, a business with operations in the cannabis and hemp industry is subject to the risks inherent in the agricultural business, including risks of crop failure presented by weather, insects, plant diseases and similar agricultural risks. Accordingly, there can be no assurance that artificial or natural elements, such as insects and plant diseases, will not entirely interrupt production activities or have an adverse effect on the production of cannabis and hemp and, accordingly, acquisition prices which could have a material adverse effect on our operations.

***There is uncertainty surrounding the regulatory pathway for CBD.***

The FDA currently does not permit the marketing of CBD-containing foods or dietary supplements, and we may be subject to enforcement action taken by the FDA concerning products containing derivatives from hemp. On February 4, 2021, Representative Kurt Schrader introduced H.R. 8179, a bill seeking to amend the FFDCA with respect to the regulation of certain hemp-derived CBD and which, if enacted into law, would permit the marketing of hemp-derived CBD and substances containing hemp-derived CBD as dietary supplements under the FFDCA, resolving ambiguity and providing clear guidance to stakeholders about how to comply with applicable FDA law. However, there can be no assurance that such bill will be enacted into law, and our failure to comply with FDA requirements may result in, among other things, warning letters, injunctions, product recalls, product seizures, fines and/or criminal prosecutions.

***Our products are not approved by the FDA or any other federal governmental authority.***

We have medical marijuana licenses in the states of New York, New Jersey, Florida, Maryland, Massachusetts, Vermont, Arizona and Nevada and operational dispensaries in each state except Nevada. Where we have medical marijuana licenses, we sell our medical marijuana pursuant to applicable state laws only; however, compliance with states laws does not constitute compliance with the FDA, and the FDA has not approved our products for sale. Cannabis is a Schedule I controlled substance under the U.S. Controlled Substances Act. A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety use under medical supervision and a high potential for abuse. Other than Epidiolex (cannabidiol), a cannabis-derived product, and three synthetic cannabis-related drug products (Marinol (dronabinol), Syndros (dronabinol) and Cesamet (nabilone)), to our knowledge, the FDA has not approved a marketing application for a cannabis or cannabis-derived product for the treatment of any disease or condition. The FDA also has not permitted the marketing of certain CBD-containing products, such as foods, tinctures, gummies, and other ingestible products. Our CBD-containing products are not intended for use in the diagnosis, cure, mitigation, treatment, or prevention of a disease or condition. We can provide no assurance that our products or operations are in compliance with federal regulations, including those enforced by the FDA. Failure to comply with FDA regulations may result in among other things, warning letters, injunctions, product recalls, product seizures, fines and/or criminal prosecutions.

***Legislation or regulations which impose substantial new regulatory requirements on the manufacture, packaging, labeling, advertising and distribution and sale of hemp-derived products could harm our business, results of operations, financial condition and prospects.***

We believe that the sale of our hemp-derived topical cosmetic products are in compliance with applicable regulations because our hemp products contain less than 0.3% THC and are sold only in states in the United States that have not prohibited the sale of hemp products. The rapidly changing regulatory landscape regarding hemp-derived products presents a substantial risk to the success and ongoing viability of the hemp industry in general and our ability to offer and market hemp-derived products. New legislation or regulations may be introduced at either the federal or state level which, if passed, could impose substantial new regulatory requirements on the manufacture, packaging, labeling, advertising and distribution and sale of hemp-derived products. New legislation or regulations may also require the reformulation, elimination or relabeling of certain products to meet new standards and revisions to certain sales and marketing materials, and it is possible that the costs of complying with these new regulatory requirements could be material.

“Marijuana” is illegal under the CSA. The 2018 Farm Bill modified the definition of “marijuana” in the CSA so that the definition of “marijuana” no longer includes hemp. The 2018 Farm Bill defines hemp as the “plant Cannabis sativa L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3% on a dry weight basis.” All of our hemp-derived products contain less than 0.3% delta-9 tetrahydrocannabinol concentration content. As such, we believe that the manufacture, packaging, labeling, advertising, distribution and sale of our hemp-derived products do not violate the CSA. The FDA, however, does not permit the sale or distribution of certain products, including food and dietary supplements (such as tinctures and gummies). If federal or state regulatory authorities, however, were to determine that industrial hemp and derivatives could be treated by federal and state regulatory authorities as “marijuana”, we could no longer offer our CBD products legally and could potentially be subject to regulatory action. Violations of United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by the United States federal government including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. Any such actions could have a material adverse effect on our business.

The FDA, Federal Trade Commission (“FTC”) and their state-level equivalents, also possess broad authority to enforce the provisions of federal and state law, respectively, applicable to consumer products and safeguards as such relate to foods, dietary supplements and cosmetics, including powers to issue a public warning or notice of violation letter to a Company, publicize information about illegal products, detain products intended for import or export (in conjunction with U.S. Customs and Border Protection) or otherwise deemed illegal, request a recall of illegal products from the market, and request the Department of Justice, or the state-level equivalent, to initiate a seizure action, an injunction action, or a criminal prosecution in the U.S. or respective state courts. The initiation of any regulatory action towards industrial hemp or hemp derivatives by the FDA, FTC or any other related federal or state agency, would result in greater legal cost to the Company, may result in substantial financial penalties and enjoinment from certain business-related activities, and if such actions were publicly reported, they may have a materially adverse effect on our business and its results of operations.

***We are dependent on the popularity of consumer acceptance of cannabis and hemp products.***

We believe the cannabis and hemp industries are highly dependent upon consumer perception regarding the safety, efficacy and quality of cannabis and related products distributed to such consumers. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis and hemp-based products. There has been limited scientific research on cannabis and hemp and there can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention, or other research findings or publicity will be favorable to the cannabis and hemp market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention, or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings, or publicity could have a material adverse effect on the demand for our products and on our business, financial condition and results of operations. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis, hemp and related products in general, or our products specifically, or associating the consumption of cannabis and hemp or related products with illness or other negative effects or events, could also have such a material adverse effect. Such adverse publicity reports or other media attention could have such a material adverse effect even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regard to our business and activities, whether true or not. Although we take care in protecting our image and reputation, we do not ultimately have direct control over how it is perceived by others. Reputational loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to our overall ability to advance our projects, thereby having a material adverse impact on our financial performance, financial condition, cash flows and growth prospects.

Furthermore, adverse publicity reports or other media attention could hinder market growth and state legalization of cannabis due to inconsistent public opinion and perception of the medical and adult-use cannabis industry. While public opinion and support appears to be rising for legalizing the use of cannabis for medical and adult use, especially in the United States, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, decriminalizing cannabis as opposed to full legalization). If consumers do not accept our cannabis or hemp products, or if we fail to meet customers' needs and expectations adequately, our ability to continue generating revenues could be reduced which could have a material adverse effect on our business.

***The presence of trace amounts of THC in our hemp products may cause adverse consequences to users of such products that will expose us to the risk of liability and other consequences.***

Some of our products that are intended to primarily contain U.S. hemp-derived CBD may contain trace amounts of THC. THC is an illegal or controlled substance in many jurisdictions, including under the federal laws of the U.S. Whether or not ingestion of THC (at low levels or otherwise) is permitted in a particular jurisdiction, there may be adverse consequences to consumers of our U.S. hemp products who test positive for any amounts of THC, even trace amounts, because of the presence of unintentional amounts of THC in our hemp products. In addition, certain metabolic processes in the body may negatively affect the results of drug tests. As a result, we may have to recall our products from the market. Positive tests for THC may adversely affect our reputation and our ability to obtain or retain customers. A claim or regulatory action against us based on such positive test results could materially and adversely affect our business, financial condition, operating results, liquidity, cash flow and operational performance.

***We will need additional capital to sustain our operations and will likely need to seek further financing, which may not be on acceptable terms, if at all. If we fail to raise additional capital, as needed, our ability to implement our business model and strategy could be limited.***

We have limited capital resources and operations. Our net losses for the year ended December 31, 2021 and 2020 were $76.2 million and $313.4 million, respectively, and our accumulated deficit as of December 31, 2021 and 2020 was $800.4 million and $724.1 million, respectively. To date, our operations have been funded primarily from the proceeds of debt and equity financings, and we may require additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to us when needed or on terms which are acceptable. If additional capital is raised through further issuances of equity or debt securities, existing holders of our common shares could suffer further dilution, and any new equity securities issued could have rights, preferences and privileges superior to our existing common shareholders. Furthermore, our outstanding debt instruments impose certain restrictions on our operating and financing activities, including certain restrictions on our ability to incur certain additional indebtedness, grant liens, make certain dividends and other payment restrictions affecting our subsidiaries, issue shares or convertible securities and sell certain assets. In addition, any debt financing secured in the future could also involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

Moreover, due to the fact that cannabis is illegal under U.S. federal law, we may have difficulty attracting investors or raising capital on favorable terms, or at all.

***We have outstanding debt instruments that are secured by a security interest in all of our assets and our failure to comply with the terms and covenants of such debt instruments could result in our loss of all of our assets.***

We have outstanding debt instruments that are secured by a security interest in all of our assets. If we fail to comply with the covenants set forth in the debt instruments or if we fail to make certain payments under the debt instruments when due, the holders of such debt could declare the debt instruments in default. If we default on any such debt instruments, the holders have the right to seize our assets that secure the debt instruments, which may force us to suspend all operations.

***We and our subsidiaries have limited operating histories and therefore we are subject to many of the risks common to early-stage enterprises.***

We and certain of our subsidiaries have limited operating histories, which may make evaluating our business and future prospects difficult and may increase the risk of an investment in our business. We may face certain risks and difficulties as an early-stage company with limited operating history, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenue. Our ability to manage growth effectively will require us to manage our subsidiaries effectively and continue to implement and improve our operational and financial systems and to expand, train and manage our employees. There is no assurance that we will be able to manage growth effectively. If we do not successfully address these risks, it could have a material adverse effect on our business, financial condition and results of operations.

***We depend on key personnel to operate our business, and if we are unable to retain, attract and integrate qualified personnel, our ability to develop and successfully grow our business could be harmed.***

We believe our success has depended and will continue to depend on the efforts and talents of our executives and employees. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees, including employees with sufficient experience in the cannabis industry. Qualified individuals, including individuals with sufficient experience in the cannabis industry, are in high demand, and we may incur significant costs to attract and retain such individuals. In addition, the loss of any of our key employees or senior management could have a material adverse effect on our ability to execute our business plan and strategy, and we may not be able to find adequate replacements on a timely basis, or at all. Our executive officers and other employees are at will employees, which means they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. We may not be able to retain the services of any members of our senior management or other key employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, it could have a material adverse effect on our business, financial condition and results of operations.

***We may have increased labor costs based on union activity.***

Certain of our employees in New York and Massachusetts have elected to unionize with the United Food and Commercial Workers Union. In general, labor unions are working to organize workforces in the cannabis industry in general. It is possible that certain retail and/or manufacturing locations will be organized in the future, which could lead to work stoppages or increased labor costs and adversely affect our business. We cannot predict how stable our relationships with U.S. labor organizations would be or whether we would be able to meet any unions' requirements without impacting our financial condition. Labor unions may also limit our flexibility in dealing with our workforce. Work stoppages and instability in our union relationships could delay the production and sale of our products, which could strain relationships with customers and cause a loss of revenues which would adversely affect our operations.

***We may have difficulty accessing the service of banks, which may make it difficult for us to operate.***

Since cannabis and certain cannabis-related activities are illegal under U.S. federal law and certain state laws, many banks and other financial institutions will not accept the deposit of funds from cannabis-related businesses and will close deposit accounts upon discovery that the account contains such funds. Financial transactions involving proceeds generated by cannabis-related activities can form the basis for prosecution under the U.S. federal anti-money laundering statutes, unlicensed money transmitter statute and the Bank Secrecy Act. The Bank Secrecy Act, enforced by FinCEN, requires our banks and financial institutions with which we do business to file currency transaction reports for currency transactions in excess of $10,000, including identification of the customer by name and social security number, to the IRS. This regulation also requires those banks and financial institutions to file suspicious activity reports with respect to certain suspicious activity, including any transaction that exceeds $5,000 that they know, suspect, or have reason to believe involves funds from illegal activity (including funds from cannabis-related businesses) or is designed to evade U.S. federal regulations or reporting requirements and to verify sources of funds. Substantial penalties can be imposed against those banks and financial institutions if they fail to comply with these laws and regulations. In recent years, anti-money laundering enforcement has included the assessment of money penalties that, in some cases, have been very substantial amounts, the acceptance of responsibility and admission regarding the facts by the company involved, actions focused on individual officers, including compliance officers, of the company involved and seizure and forfeiture of company property and its proceeds. If those banks and financial institutions fail to comply with this regulation and other laws and regulations, FinCEN and other regulatory agencies may impose substantial penalties on those banks and financial institutions.

For the reasons noted above, despite the guidance set forth to banks under the FinCEN memorandum, banks remain hesitant to offer banking services to cannabis-related businesses. Consequently, those businesses involved in the cannabis industry continue to encounter difficulty establishing and maintaining banking relationships. Our inability to maintain our current bank accounts would make it difficult for us to operate our business, increase our operating costs and impose additional operational, logistical and security challenges and could result in our inability to implement our business plan, which could have a material adverse effect on our business, financial condition and results of operations.

***We compete for market share with illicit cannabis businesses and other persons engaging in illicit cannabis-related activities, and each such business or other person likely is not adhering to the same laws, regulations, rules and other restrictions that are applicable to us.***

We face and expect to continue to face competition from illicit cannabis businesses, which are unlicensed and unregulated and other persons engaging in illicit cannabis-related activities. These illicit cannabis businesses and other persons are cultivating and/or selling cannabis while likely not adhering to the same laws, regulations, rules and other restrictions that are applicable to us. Further, these illicit cannabis businesses and other persons may be able to offer products with higher concentrations of active ingredients than we are authorized to produce and sell, and using delivery methods, including edibles, concentrates and extract vaporizers, that we may be prohibited from offering in certain of the states in which we operate. The competition presented by these illicit cannabis businesses and other persons and the inability or unwillingness of law enforcement authorities to enforce existing laws prohibiting the unlicensed or otherwise illegal cultivation and sale of cannabis could result in the perpetuation of the illegal market for cannabis and/or have a material adverse effect on the perception of cannabis use.

In addition, we must follow certain state regulations to set the retail prices of our cannabis, which regulations are not applicable to illicit cannabis businesses and other persons engaging in illicit cannabis related-activities. In determining the retail prices of our cannabis, we must consider a number of factors, including the price of cannabis in the existing illicit market in the event our prices are too high and the risk of our customers reselling our cannabis in the event our prices are too low. If we do not appropriately set retail prices on our cannabis products, we may have difficulty competing with illicit cannabis businesses and other persons, which may have a material adverse effect on our business.

***We may be subject to constraints on marketing our products.***

There may be restrictions on sales and marketing activities imposed by government regulatory bodies that can hinder the development of our business and operating results. Restrictions may include regulations that specify what, where and to whom product information and descriptions may appear and/or be advertised. Marketing, advertising, packaging and labeling regulations also vary from state to state, potentially limiting the consistency and scale of consumer branding communication and product education efforts. The regulatory environment in the U.S. limits our ability to compete for market share in a manner similar to other industries. If we are unable to effectively market our products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for our products, our sales and operating results could be adversely affected.

***Servicing our debt will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our debt obligations.***

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our current and future indebtedness depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. There are no assurances that our operations will generate sufficient cash flow to service our debt. If we are unable to generate such cash flow, we are limited by our current debt in our ability to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital. Further, even if we were permitted to adopt one or more alternatives under our current debt documents, our ability to refinance our existing debt or obtain additional equity capital will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms.

***Our operations could be adversely affected by events outside of our control such as natural disasters, wars or health epidemics.***

We may be impacted by business interruptions resulting from pandemics and public health emergencies, including those related to the novel coronavirus known as COVID-19 which surfaced in Wuhan, China in December 2019, geopolitical actions, including war and terrorism or natural disasters including earthquakes, hurricanes, floods and fires. An outbreak of infectious disease, a pandemic, or a similar public health threat, such as the outbreak of COVID-19, or a fear of any of the foregoing, could adversely impact our business by causing operating, manufacturing, supply chain and project development delays and disruptions, labor shortages, travel and shipping disruption and shutdowns (including as a result of government regulation and preventative measures). For example, COVID-19 previously had and may in the future result in the temporary closures of one or more of our facilities; temporary or long-term labor shortages; temporary or long-term adverse impacts on our supply chain and distribution channels; and the potential of increased network vulnerability and risk of data loss resulting from increased use of remote access and removal of data from our facilities. In addition, COVID-19 could negatively impact capital expenditures and overall economic activity in the impacted regions or depending on the severity, globally, which could impact the demand for our products and services. It is unknown whether and how we may be impacted if the COVID-19 pandemic persists for an extended period of time or if there are increases in breadth or severity of COVID-19, including as a result of the waiver of regulatory requirements or the implementation of emergency regulations to which we are subject. Furthermore, the COVID-19 pandemic poses a risk we or our employees, contractors, suppliers and other partners may be prevented from conducting business activities for an indefinite period of time. Although we have been deemed essential and/or have been permitted to continue operating our facilities in the states in which we cultivate, process, manufacture and sell cannabis during the pendency of the COVID-19 pandemic, there is no assurance that our operations will continue to be deemed essential and/or will continue to be permitted to operate. For example, both Massachusetts and Nevada previously halted and restricted adult use cannabis sales, respectively. Although such restrictions have since been lifted, no assurance can be provided that Massachusetts and/or Nevada or other states will not implement the restrictions on the sale of cannabis in the future as a result of COVID-19. As a result, we may incur expenses or delays relating to such events outside of our control, which could have a material adverse impact on our business, operating results, financial condition and the trading price of our common shares.

***Certain events or developments in the cannabis industry more generally may affect our business.***

Cannabis is illegal under U.S. federal law and there is limited scientific evidence to verify the medical or therapeutic benefits associated with cannabis; any such evidence remains mostly anecdotal. In addition, there is no clear scientific evidence to suggest whether cannabis consumption can result in long-term health effects or any adverse public health consequences. Further, the cannabis industry has commonly been associated with certain criminal activities, including organized crime. The actual or perceived occurrence of any number of events, including publication of any negative scientific research or the actions and/or wrongdoing of other businesses and individuals in the cannabis industry, may negatively affect the reputation of the industry as a whole, and may cause potential investors to no longer invest in our securities or the cannabis industry in general.

We ultimately do not have control over how the cannabis industry, or our business is perceived by others. Any reputational issues may result in decreased investor confidence, increased challenges in developing and maintaining community relations and present an impediment to our overall ability to advance our business strategy and realize our growth prospects.

***Cannabis pricing and supply regulation may adversely affect our business.***

Certain states require cannabis dispensaries to submit cannabis pricing for licensing approval in order to ensure that the cost of cannabis in the regulated market is neither too high, which among other things may encourage the purchase of cannabis from illicit cannabis business, or too low, which among other things may increase the risk of legally purchased cannabis being resold illicitly. Additionally, certain states regulate the operations of cultivators to address oversupply of local markets. Our ability to adjust sale prices at our dispensaries or production volumes at our cultivation facilities may be affected by such pricing and supply regulations, which could have a material adverse impact on our ability to adapt to local market conditions.

***High state and local excise and other taxes on cannabis products and compliance costs may adversely affect our business.***

Certain states impose significant excise taxes on products sold at licensed cannabis dispensaries, which taxes in some states exceed 15%. Local jurisdictions typically impose additional taxes on cannabis products. Furthermore, we incur significant costs complying with state and local laws and regulations. Collectively, federal, state and local taxes may place a substantial burden on our revenue which could have a material adverse effect on our business.

***Litigation, complaints, enforcement actions and governmental inquiries could have a material adverse effect on our business, financial condition and results of operations.***

We (directly or through our subsidiaries) have been named as a defendant in several legal actions and are subject to various risks and contingencies arising in the normal course of business. Furthermore, our participation in the cannabis industry may lead to further litigation, formal or informal complaints, enforcement actions and governmental inquiries. Litigation, complaints, enforcement actions and governmental inquiries could consume considerable amounts of our financial and other resources, which could have a material adverse effect on our sales, revenue, profitability and growth prospects. Our subsidiaries are presently engaged in the lawful cultivation, processing and sale of cannabis under state law in the jurisdictions in which they operate, and we, and our subsidiaries, have not been, and are not currently subject to, any material litigation, complaint, or enforcement action regarding cannabis (or otherwise) brought by any governmental authority.

Litigation, complaints, enforcement actions and governmental inquiries could result from cannabis-related activities in violation of federal law, including, but not limited to, the Racketeer Influenced Corrupt Organizations Act (“RICO”). Among other things, RICO authorizes private parties whose properties or businesses are harmed by such patterns of racketeering activity to initiate a civil action against the individuals involved. A number of RICO lawsuits have been brought by neighbors of state licensed cannabis farms who allege they are bothered by noise and odor associated with cannabis production, which has also led to decreased property values. By alleging that the smell of cannabis interferes with the enjoyment of their property and drives down their property value, plaintiffs in these cases have effectively elevated common law nuisance claims into federal RICO lawsuits. These lawsuits have named not only the cannabis operator, but also supply chain partners and vendors that do not directly handle or otherwise “touch” cannabis.

Further, from time to time in the normal course of our business operations, we or any of our subsidiaries may become subject to litigation, complaints, enforcement actions and governmental inquiries that may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operations are required. The cost to defend such litigation, complaints, actions, or inquiries may be significant and may require a diversion of our resources, including the attention of our management. There also may be adverse publicity associated with such litigation, complaints, actions, or inquiries that could negatively affect customer perception our business, regardless of whether the allegations are valid or whether we are ultimately found liable. Insurance may not be sufficient or available to cover any liabilities with respect to these or other matters. A judgment or other liability in excess of our insurance coverage for any claims could have a material adverse effect on our business, financial condition and results of operations.

We currently have insurance coverage protecting many but not all of our assets and operations. Our insurance coverage is subject to coverage limits and exclusions and may not be available for the risks and hazards to which we are exposed. In addition, no assurance can be given that such insurance will be adequate to cover our liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If we were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, we may be exposed to material uninsured liabilities that could impede our liquidity, profitability, or solvency.

***The resignation of Hadley Ford in 2020 as our Chief Executive Officer could have an adverse impact on our business.***

Our Board of Directors formed a special committee (the “Special Committee”) for the purpose of overseeing the investigation into alleged misconduct by Hadley Ford. The Special Committee concluded that Mr. Ford entered into two undisclosed loans (one loan for $100,000 with a related-party and the other for $60,000 with a non-arm’s length party), that such loans created a potential or apparent conflict of interest and that such loans should have been disclosed to our Board of Directors in a timely manner. The Special Committee did not find a basis to conclude that Mr. Ford’s conduct in the face of the potential or apparent conflict of interest impacted the terms, timing, or negotiations we had with the related-party or non-arm’s length party. Nevertheless, the Special Committee concluded, and the Board accepted, that the failure to disclose the two loans to the Board was a breach of our conflict of interest policies and of other obligations that Mr. Ford had as an officer and director of our Company. Based on the findings of the investigation, Mr. Ford resigned from his positions as our Chief Executive Officer and a member of our Board of Directors. In addition, in April 2020, June 2020 and July 2020, several shareholder class action lawsuits were filed against us, largely relating to Mr. Ford’s alleged misconduct. See Item 3, Legal Proceedings for additional information regarding such lawsuits. There can be no assurance that, as a result of Mr. Ford’s resignation or the findings of the investigation, we may incur further liability that could arise from additional legal proceedings and/or regulatory investigations, which could have a material adverse impact on our business.

***We may lack access to U.S. bankruptcy protections.***

Many courts have denied cannabis businesses bankruptcy protections because the use of cannabis is illegal under federal law. In order to receive bankruptcy protections in Canada under the Companies Creditors Arrangement Act, a company must (i) be incorporated under a Canadian statute or hold property in Canada, (ii) owe at least C$5.0 million to its creditors and (iii) be insolvent. If we were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to us, which would have a material adverse effect on us.

***We may face difficulties in enforcing our contracts.***

Because our contracts involve cannabis and other activities that are not legal under federal law and in some state jurisdictions, we may face difficulties in enforcing our contracts in federal courts and certain state courts. We cannot provide assurance that we will have a remedy for breach of contract, which could have a material adverse effect on us.

***We may be subject to product liability claims and product recalls.***

As a manufacturer and distributor of products designed to be ingested by humans, we face an inherent risk of exposure to product liability claims, regulatory action and litigation if our products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis and CBD products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination, which may affect consumer confidence in our cannabis and/or CBD products. Previously unknown adverse reactions resulting from human consumption of cannabis and CBD products alone or in combination with other medications or substances could occur. We may be subject to various product liability claims, including inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against us could result in increased costs, adversely affect our reputation with our clients and consumers generally and have a material adverse effect on our business, financial condition and results of operations.

While we maintain product liability insurance, there can be no assurances that we will be able to maintain this or other product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of our products.

In addition, manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If one or more of our products are recalled due to an alleged product defect or for any other reason, we could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. We may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin, or at all. In addition, a product recall may require significant attention from our management. Although we have detailed procedures in place for testing finished products, there can be no assurance that any quality, potency, or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action, or lawsuits.

Additionally, if one or more of our products were subject to recall, the reputation of that product and our reputation could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for our products and could have a material adverse effect on our business, financial condition and results of operations. Additionally, product recalls may lead to increased scrutiny of our operations by regulatory agencies in the jurisdictions in which we operate, requiring further attention from our management and potential legal fees and other expenses. Furthermore, any product recall affecting the cannabis or CBD industry more broadly could lead consumers to lose confidence in the safety of the products, which could have a material adverse effect on our business, financial condition and results of operations.

***Third parties with whom we do business may perceive themselves as being exposed to reputational risk because of their relationship with us due to our cannabis-related business activities and may as a result, refuse to do business with us.***

The third parties with whom we do business may perceive that they are exposed to reputational risk because of our cannabis-related business activities. Any third-party service provider could suspend or withdraw its services if it perceives that the potential risks exceed the potential benefits of providing such services to us. Specifically, while we have banking relationships and believe that the services can be procured from other institutions, we may, in the future, have difficulty maintaining existing or securing new bank accounts or clearing services. Our failure to establish or maintain business relationships could have a material adverse effect on our business, financial condition and results of operations.

***We rely on third-party suppliers, manufacturers and contractors.***

We rely on third-party suppliers, manufacturers and contractors to provide certain products and services. Due to the uncertain regulatory landscape for regulating cannabis in the United States, our third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for our operations and the operations of our subsidiaries. Loss of these suppliers, manufacturers and contractors could have a material adverse effect on our business, financial condition and results of operations.

***We may become subject to liability arising from fraudulent or illegal activity by our employees, independent contractors and consultants.***

We are exposed to the risk that our employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities that violates manufacturing standards and government regulations and laws including regulations with respect to healthcare fraud, abuse laws and regulations or laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for us to identify and deter misconduct by our employees and other third parties. The precautions we take to detect and prevent such misconduct may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending such actions, such actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings and curtailment of our operations, any of which could have a material adverse effect on our business, financial condition and results of operations.

***Some of our lines of business rely on our third-party service providers to host and deliver services and data and any interruptions or delays in these hosted services, security or privacy breaches, or failures in data collection could expose us to liability and harm our business and reputation.***

Some of our lines of business and services rely on services hosted and controlled directly by third-party service providers. We do not have redundancy for all of our systems, many of our critical applications reside in only one of our data centers, and our disaster recovery planning may not account for all eventualities. If our business relationship with a third-party provider of hosting or software services is negatively affected, if one of our service providers were to terminate its agreement with us, or if there was a security or privacy breach related to one of our third-party service providers, we may not be able to access to our data or our data may be compromised which could subject us to reputational harm and cause us to lose customers and future business, thereby reducing our revenue.

***We may experience breaches of security at our facilities or in respect of electronic documents and data storage and may face risks related to breaches of applicable privacy laws.***

Given the nature of our cannabis products and the limited legal channels for distribution as well as the concentration of inventory in our facilities, we are subject to the risk of theft of our products and other security breaches. A security breach at one of our facilities could result in a significant loss of available products, expose us to liability under applicable regulations and to potentially costly litigation, or increase expenses relating to the resolution and future prevention of similar thefts, any of which could have an adverse effect on our business, financial condition and results of operations.

In addition, we may collect and store personal information about our customers, and we are responsible for protecting that information from privacy breaches. A security incident at our facilities may compromise the confidentiality, integrity, or availability of customer data. Unauthorized access to customer data stored on our computers or networks may be obtained through break-ins, breaches of our secure network by an unauthorized party, employee theft or misuse, or other misconduct. Unauthorized access to customer data may be obtained through inadequate use of security controls by customers. Accounts created with weak passwords could allow cyber-attackers to gain access to customer data. If there were an inadvertent disclosure of customer information or if a third party were to gain unauthorized access to the information we possess on behalf of our customers, our operations could be disrupted, our reputation could be damaged, and we could be subject to claims or other liabilities, including liability from federal and state governmental agencies. In addition, such perceived or actual unauthorized disclosure of the information we collect or breach of our security could damage our reputation, result in the loss of customers and have a material adverse effect on our business, financial condition and results of operations.

We collect and manage a large amount of data using our hosted solutions. As a result, it is possible that hardware or software failures or errors in our systems (or those of our third-party service providers) could result in data loss or corruption, cause the information that we collect to be incomplete or contain inaccuracies that our customers regard as significant, or cause us to fail to meet committed service levels. Furthermore, our ability to collect and report data may be delayed or interrupted by a number of factors, including access to the Internet, the failure of our network or software systems, or security breaches. In addition, computer viruses or other malware (including ransomware) may harm our systems, causing us to lose data or incur additional costs to retrieve corrupted or encrypted data, and the transmission of computer viruses or other malware could expose us to litigation. We may also find, on occasion, that we cannot deliver data and reports in near real time because of a number of factors, including failures of our network or software. If we supply inaccurate information or experience interruptions in our ability to capture, store and supply information in near real time, or at all, our reputation could be harmed, we could lose customers and/or we could be found liable for damages or incur other losses.

In addition, there are a number of laws protecting the confidentiality of certain of our customers' health information, including health records, and restricting the use and disclosure of that protected information. In the United States, under the administrative simplification provisions of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and the HIPAA Privacy and Security Rules, 45 C.F.R. Parts 160 and 164, as amended by Title XIII of Division A and Title IV of Division B of the American Recovery and Reinvestment Act ("ARRA") (Pub. L. 111-5) also known as the Health Information Technology for Economic and Clinical Health Act ("HITECH Act") and the HITECH Act Final Rule published January 25, 2013 ("HITECH Act Final Rule"), the U.S. Department of Health and Human Services has issued regulations which establish uniform standards governing the conduct of certain electronic health care transactions and protecting the privacy and security of Protected Health Information ("PHI") and electronic PHI ("ePHI") used or disclosed by health care providers and other covered entities. HIPAA Privacy and Security Rules establish a minimum standard for healthcare privacy and security in the United States and do not preempt state privacy, security and confidentiality laws that are more stringent or that provide individuals with greater rights with respect to the privacy or security of and access to their records containing PHI or ePHI. If we are found to be subject to and in violation of the HIPAA Privacy and Security Rules or other state laws protecting the confidentiality of our customers' health information, we could be subject to sanctions, civil or criminal penalties and a corrective action plan which could increase our liabilities, harm our reputation and have a material adverse effect on our business, financial condition and results of operations. Other jurisdictions in which we may expand our operations may also have similar privacy and security laws to which we are subject, depending on the nature of our operations in such jurisdictions.

***We may be subject to risks related to the protection and enforcement of our intellectual property rights, and third parties may enforce their intellectual property rights against us.***

The ownership and protection of our intellectual property rights is a significant aspect of our future success. Currently, we rely on trade secrets, trademarks, service marks, copyrights, technical know-how and other proprietary information (collectively, "Intellectual Property") to maintain our competitive position. We try to protect our Intellectual Property by seeking and obtaining registered protection where possible, developing and implementing standard operating procedures to protect Intellectual Property and entering into agreements with parties that have access to our Intellectual Property, such as our partners, collaborators, employees and consultants, to protect confidentiality and ownership. We also seek to preserve the integrity and confidentiality of our Intellectual Property by maintaining physical security of our premises and physical and electronic security of our information technology systems.

It is possible that we may fail to identify Intellectual Property, fail to protect or enforce our Intellectual Property, inadvertently disclose such Intellectual Property or fail to register rights in relation to such Intellectual Property.

In relation to our agreements with parties that have access to our Intellectual Property, any of these parties may breach those agreements, and we may not have adequate remedies for any specific breach. In relation to our security measures, such security measures may be breached, and we may not have adequate remedies for any such breach. In addition, certain of our Intellectual Property, which has not yet been applied for or registered, may otherwise become known to or be independently developed by competitors or may already be the subject of applications for intellectual property registrations filed by our competitors, which could have a material adverse effect on our business, financial condition and results of operations.

We cannot provide any assurance that our Intellectual Property will not be disclosed in violation of agreements or that competitors will not otherwise gain access to our Intellectual Property or independently develop and file applications for intellectual property rights that adversely affect our Intellectual Property rights. Unauthorized parties may attempt to copy, reverse engineer, or otherwise obtain and use our Intellectual Property. Identifying and policing the unauthorized use of our current or future Intellectual Property rights could be difficult, expensive, time-consuming and unpredictable, as may be enforcing these rights against unauthorized use by others. We may be unable to effectively monitor and evaluate the products being distributed by our competitors, including unlicensed dispensaries, and the processes used to produce such products. Additionally, if the steps taken to identify and protect our Intellectual Property rights are deemed inadequate, we may have insufficient recourse against third parties for enforcement of our Intellectual Property rights.

Furthermore, the laws and positions of intellectual property offices administering such laws and regulations regarding intellectual property rights with respect to cannabis and services and products relating to cannabis are constantly evolving and there is uncertainty regarding whether the laws or regulations of other countries prohibit the filing, prosecution and issuance of applications for intellectual property registrations with respect to cannabis or services or products relating to cannabis and whether the laws or regulations of other countries prohibit the enforcement of rights under intellectual property registrations with respect to cannabis or services or products relating to cannabis. For example, our ability to obtain registered trademark protection with respect to cannabis and services and products related to cannabis may be limited in certain countries, such as the United States, where registered trademark protections are currently unavailable with the USPTO for trademarks covering cannabis or cannabis-based products in light of the CSA. Additionally, the U.S. Patent and Trademark Office ("USPTO") promulgated Examination Guide 1-19, which provides, among other things, that trademarks for food products, beverage products, dietary supplement products, or pet treat products containing hemp derived CBD can be rejected by the USPTO on the basis that the sale of such products in interstate commerce allegedly violates FDA law. Accordingly, our ability to obtain intellectual property rights or enforce intellectual property rights against third-party uses of similar trademarks may be limited in certain countries. Moreover, in any infringement proceeding, some or all of our Intellectual Property rights or arrangements or agreements seeking to protect the same for our benefit may be found invalid, unenforceable, or anti-competitive. An adverse result in any litigation or defense proceedings could put one or more of our Intellectual Property rights at risk of being invalidated or interpreted narrowly and could put existing intellectual property applications at risk of not being issued. Any or all of these events could have a material adverse effect on our business, financial condition and results of operations.

Additionally, other parties may claim that our products or services infringe on their proprietary rights or other intellectual property rights. Third parties may claim that our use of our trademarks infringes upon their trademark rights. Parties making claims against us may obtain injunctive or other equitable relief, which may have an adverse impact on our business. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages. In addition, we may need to obtain licenses from third parties who allege that we have infringed on their lawful rights. However, such licenses may not be available on terms acceptable to us, if at all. In addition, we may not be able to obtain licenses on terms that are favorable to us, or at all, or other rights with respect to intellectual property that we do not own.

***We have limited trademark protection.***

We will not be able to register any federal trademarks for our cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling and using cannabis is a crime under the CSA, the USPTO will not permit the registration of any trademark that identifies cannabis products. As a result, we likely will be unable to protect our cannabis product trademarks beyond the geographic areas in which we conduct business. The use of our trademarks outside the states in which we operate by one or more other persons could have a material adverse effect on the value of such trademarks.

***Conflicts of interest may arise between us and our directors and officers.***

We may be subject to various potential conflicts of interest because of the fact that some of our directors and officers may be engaged in a range of business activities. In addition, our executive officers and directors may devote time to their outside business interests so long as such activities do not materially or adversely interfere with their duties to us. In some cases, our directors and executive officers may have fiduciary obligations associated with those business interests that interfere with their ability to devote time to our business and affairs and that could have a material adverse effect on our business, financial condition and results of operations. These business interests could require significant time and attention of our directors and executive officers.

In addition, we may also become involved in other transactions, which conflict with the interests of our directors and officers who may from time to time deal with persons, firms, institutions, or corporations with which we may be dealing or may be seeking investments similar to those desired by us. The interests of these persons could conflict with our interests, and these persons may be competing with us for available investment opportunities.

***Financial reporting obligations of being a public company in Canada and the United States are expensive and time-consuming, and our management will be required to devote substantial time to compliance matters.***

As a public company, we are subject to the reporting requirements of applicable securities rules and regulations of Canadian securities regulators and other requirements in Canada. Complying with these rules and regulations increases our legal and financial compliance costs, makes some activities more difficult, time-consuming and costly, and increases demand on our systems and resources.

In addition, the obligations of being a public company in the United States require significant expenditures and will place significant demands on our management and other personnel, including costs resulting from public company reporting obligations under the Exchange Act and the rules and regulations regarding corporate governance practices, including those under the Sarbanes-Oxley Act of 2002, as amended (“Sarbanes-Oxley”), and the Dodd-Frank Wall Street Reform and Consumer Protection Act. These rules require the establishment and maintenance of effective disclosure and financial controls and procedures and internal control over financial reporting among many other complex rules that are often difficult to implement, monitor and maintain compliance with. Moreover, despite recent reforms made possible by the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”), the reporting requirements, rules and regulations will make some activities more time-consuming and costly, particularly after we are no longer deemed an “emerging growth company” or “smaller reporting company.” In addition, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. Our management and other personnel will need to devote a substantial amount of time to ensure that we comply with all of these requirements and to keep pace with new regulations, otherwise we may fall out of compliance and risk becoming subject to litigation, among other potential problems. Compliance with these rules and regulations could also make it more difficult for us to attract and retain qualified members of our Board of Directors.

***Failure to maintain effective internal control over our financial reporting in accordance with Section 404 of Sarbanes-Oxley could cause our financial reports to be inaccurate.***

We are required pursuant to Section 404 of Sarbanes-Oxley Act to maintain internal control over financial reporting and to assess and report on the effectiveness of those controls. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Although we prepare our financial statements in accordance with accounting principles generally accepted in the United States, our internal accounting controls may not meet all standards applicable to companies with publicly traded securities. If we fail to implement any required improvements to our disclosure controls and procedures, we may be obligated to report control deficiencies, in which case we could become subject to regulatory sanction or investigation. Further, such an outcome could damage investor confidence in the accuracy and reliability of our financial statements.

Our management has concluded that our internal controls over financial reporting were, and continue to be, ineffective, and as of the year ended December 31, 2021 as a result of a material weakness in our internal controls, which could adversely affect our ability to record, process, summarize, and report financial data. Such weaknesses include valuation of inventory, sales and expense cutoff for certain subsidiaries, and our provisioning of user access rights, password lengths, certain backup/recovery controls and change management controls. While management is working to remediate the material weakness, there is no assurance that such changes, when economically feasible and sustainable, will remediate the identified material weaknesses or that the controls will prevent or detect future material weaknesses. If we are not able to maintain effective internal control over financial reporting, our financial statements, including related disclosures, may be inaccurate, which could have a material adverse effect on our business.

***Our ability to use our net operating loss carryforwards to offset future taxable income may be subject to certain limitations.***

In general, under Section 382 of the U.S. Tax Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating loss carryforwards (“NOLs”) to offset future taxable income. Similarly, where control of a corporation has been acquired by a person or group of persons, subsection 111(5) of the Canadian Tax Act and equivalent provincial income tax legislation restrict the corporation’s ability to carry forward non-capital losses from preceding taxation years. Our existing NOLs may be subject to limitations arising from previous ownership changes. Future changes in our share ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the U.S. Tax Code or an acquisition of control for the purposes of subsection 111(5) of the Canadian Tax Act, and adversely affect our ability to utilize our NOLs in the future. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. For these reasons, we may not be able to utilize a material portion of the NOLs reflected on our balance sheet, even if we attain profitability.

### Risks Related to Government Regulations

***We can provide no assurance when or if we will obtain regulatory approvals contemplated by the Recapitalization Transaction.***

Certain of the transactions contemplated by the Recapitalization Transaction require review and/or approval by regulators in certain U.S. states with jurisdiction over the licensed cannabis operations of entities owned, in whole or in part, or controlled, directly or indirectly, by us. While we are working cooperatively with all relevant state regulatory authorities and have obtained approvals from certain states, we cannot predict or otherwise provide assurance as to if or when we will receive the outstanding state regulatory approvals contemplated by the Recapitalization Transaction. Failure to obtain the outstanding state regulatory approvals could impact our ability to operate in a particular state and/or subject us to regulatory or agency proceedings, investigations, or audits in a particular state and could lead to damage awards, fines and penalties, which could have a material adverse effect on our business, financial condition or results of operations.

***The cannabis industry is highly regulated, and we may not always succeed in fully complying with applicable regulatory requirements in all jurisdictions where we operate.***

Our cannabis-related business and activities and those of our subsidiaries are heavily regulated in all jurisdictions where we operate. Our operations are subject to various laws, regulations and guidelines by governmental authorities, both in the United States and Canada, relating to, among other things, the manufacture, marketing and sale of cannabis, as well as laws and regulations relating to health and safety, insurance coverage, the conduct of operations and the protection of the environment. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over business activities, including the power to limit or restrict business activities as well as impose additional disclosure requirements on such businesses' products.

Achievement of our business objectives is contingent, in part, upon our compliance with regulatory requirements enacted by these governmental authorities and obtaining all necessary licenses, permits, authorizations, or accreditations for our cultivation, production and dispensary operations. We may not be able to obtain such approvals or may be able to do so only at a significant expense. The commercial cannabis industry is an emerging industry in the United States. The effect of relevant governmental authorities' administration, application and enforcement of their respective regulatory regimes and delays in or our failure to obtain the necessary licenses, permits, authorizations, or accreditations to conduct our business may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on our business, financial condition and results of operations.

While we endeavor to comply with all relevant laws, regulations and guidelines with respect to our cannabis-related business and, to our knowledge, we are in compliance or are in the process of being assessed for compliance with all such laws, regulations and guidelines, any failure to comply with the regulatory requirements applicable to our operations may lead to possible sanctions including, but are not limited to, the revocation or imposition of additional conditions on licenses to operate our business, the suspension or expulsion from a particular market or jurisdiction or of our key personnel, the imposition of additional or more stringent inspection, testing and reporting requirements and the imposition of fines and censures.

In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to our operations, increase compliance costs or give rise to material liabilities or a revocation of our licenses and other permits, which could have a material adverse effect on our business, financial condition and results of operations. For example, new legislation or regulations may be introduced at either the federal and/or state level which, if passed, could impose substantial new regulatory requirements on the manufacture, packaging, labeling, advertising and distribution and sale of hemp-derived products. New legislation or regulations may also require the reformulation, elimination or relabeling of certain products to meet new standards and revisions to certain sales and marketing materials, and it is possible that the costs of complying with these new regulatory requirements could be material. Furthermore, governmental authorities may change their administration, application, or enforcement procedures at any time, which may adversely affect our costs relating to regulatory compliance.

Failure to comply with these laws and regulations could subject us to regulatory or agency proceedings, investigations, or audits and could lead to damage awards, fines and penalties. We may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits and other contingencies could harm our reputation, require us to take or refrain from taking actions that could harm our operations, or require us to pay substantial amounts of money, harming our financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on our business, financial condition and results of operations. Furthermore, if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for our products, our sales and operating results could be adversely affected.

***We cannot provide any assurance that we will be permitted or able to enter theadult-use cannabis market in any of the U.S. states that we currently operate.***

In certain of the U.S. states where we operate, laws, regulations and/or rules have been passed to regulate the cultivation, processing, manufacturing, distribution, sale and use of adult-use cannabis. Each state has unique requirements that each licensed entity must meet in order to participate in the adult-use market, including, without limitation, maintaining any existing licenses in good standing, payment of a fee, and maintaining certain medical product quantities. In addition, municipalities in each state may pass local rules and ordinances, establishing additional rules and requirements that a licensed entity must meet relating to the cultivation, processing, manufacturing, distribution, sale and use of adult-use cannabis. We cannot provide any assurance that we will be able to satisfy or meet the requirements established by a state's or municipality's relevant governmental agency that would allow us to enter the adult-use cannabis market. Failure to satisfy or meet the requirements established by a state's or municipality's relevant governmental agency would result in us not being able to participate in the adult-use cannabis market or could delay our entrance into theadult-use cannabis market in a particular state, which could have a material adverse effect on our business.

***Our business activities and the business activities of our subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law.***

While certain states in the U.S. have legalized "medical cannabis," "adult use cannabis" or both, medicaland adult-use cannabis remains illegal under federal law. The CSA classifies "marijuana" as a Schedule I drug. As such, cannabis-related business activities, including, without limitation, the cultivation, manufacture, importation, possession, use, or distribution of cannabis, remains illegal under U.S. federal law. Individual state laws do not always conform to U.S. federal law or the laws of other states, and there are a number of variations in the laws and regulations of the various states in which we operate. Although we believe our business activities and those of our subsidiaries are compliant with the laws and regulations of the states in which we and our subsidiaries operate, strict compliance with state and local laws with respect to cannabis neither absolves us of liability under U.S. federal law, nor provides a defense to any proceeding that may be brought against us under U.S. federal law. Any proceeding that may be brought against us could have a material adverse effect on our business, financial condition and results of operations. Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions, or settlements, arising from either civil or criminal proceedings brought by either the U.S. federal government or private citizens, including, but not limited to, property or product seizures, disgorgement of profits, cessation of business activities, or divestiture. Such fines, penalties, administrative sanctions, convictions, or settlements could have a material adverse effect on, among other things:

- our reputation and our ability to conduct business;

- our ability to obtain and/or maintain cannabis licenses, whether directly or indirectly, in the United States;
- the listing of our securities on various stock exchanges
- our financial position, operating results, profitability, or liquidity; and
- the market price of our securities.

***If we are not able to comply with all safety, security, health and environmental regulations applicable to our operations and industry, we may be held liable for any breaches thereof.***

Safety, security, health and environmental laws and regulations affect nearly all aspects of our operations, including product development, working conditions, waste disposal, emission controls, the maintenance of air and water quality standards and land reclamation. Security protocols with respect to our facilities and the transportation of cannabis and with respect to environmental laws and regulations impose limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Compliance with safety, security, health and environmental laws and regulations can require significant expenditures and failure to comply with such laws and regulations may result in the imposition of fines and penalties, the temporary or permanent suspension of operations, the imposition of clean-up costs resulting from contaminated properties, the imposition of damages and/or the loss of or refusal of governmental authorities to issue us permits or licenses. Exposure to these liabilities may arise in connection with our existing operations, our historical operations and operations that we may undertake in the future. We may also be held liable for worker exposure to hazardous substances and for accidents causing injury or death. There can be no assurance that we will remain in compliance with all safety, security, health and environmental laws and regulations notwithstanding our attempts to comply with such laws and regulations.

Changes in applicable safety, security, health and environmental standards may impose stricter standards and enforcement, increased fines and penalties for non-compliance and a heightened degree of responsibility for companies and their officers, directors and employees. We are not able to determine the specific impact that future changes in safety, security, health and environmental laws and regulations may have on our industry, operations and/or activities and our resulting financial position. However, we anticipate that capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent safety, security, health and environmental laws and regulations. Further changes in such laws and regulations, new information on existing safety, security, health and environmental conditions or other events, including legal proceedings based upon such conditions or an inability to obtain necessary permits in relation thereto may require increased compliance expenditures by us.

***Our investments in the United States are subject to applicable anti-money laundering laws and regulations in the United States and Canada.***

All of our subsidiaries are located in the United States. Therefore, we are subject to a variety of laws and regulations in the United States and Canada that involve money laundering, financial recordkeeping and proceeds of crime. Such laws and regulations may include the Bank Secrecy Act, as amended by Title III of the US PATRIOT Act in the United States, and the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, as amended, in Canada. If any of our investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States are found to be in violation of anti-money laundering laws or otherwise, such transactions may be viewed as proceeds of crime, including under one or more of the statutes discussed above. Any property, real or personal and its proceeds, involved in or traceable to such a crime is subject to seizure by and forfeiture to governmental authorities. Any such seizure, forfeiture or other action by law enforcement with respect our assets could restrict or otherwise jeopardize our ability to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada and could have a material adverse effect on our business, financial condition and results of operations.

***Our investments in the United States may be subject to heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the United States.***

Our existing investments in the United States and any future investments in the United States may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the United States. As a result, we may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on our ability to invest in the United States or any other jurisdiction, in addition to those described herein.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States, or elsewhere. A negative shift in the public's perception of the medical or adult use of cannabis could affect future legislation or regulation in Canada, the United States, or elsewhere. Among other things, such a shift could cause such jurisdictions to abandon initiatives or proposals to legalize cannabis or reverse existing legislation that legalized cannabis in some respect. A shift by any such jurisdiction could limit the number of new jurisdictions into which we could expand or reduce the jurisdictions in which we operate, either of which could have a material adverse effect on our expansion strategy, business, financial condition and results of operations.

***We may be subject to heightened scrutiny by regulators, exchanges and/or other authorities in Canada and/or the United States, which could affect our ability to operate our business and/or for investors to be to deposit or trade our common shares.***

Currently, the Company is traded on the CSE and on over-the-counter markets in the United States. The business, operations and investments of the Company in the United States, and any future business, operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the United States. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate or invest in the United States or any other jurisdiction, in addition to those described herein.

In 2017, there were concerns that the Canadian Depository for Securities Limited, through its subsidiary CDS Clearing and Depository Services Inc. ("CDS"), Canada's central securities depository (clearing and settling trades in the Canadian equity, fixed income and money markets), would refuse to settle trades for cannabis issuers that have investments in the United States. However, CDS has not implemented this policy.

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 describing the Canadian Securities Administrators' disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group, which is the owner and operator of CDS, announced the signing of a Memorandum of Understanding (the "TMX MOU"), with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the Canadian securities exchanges to review the conduct of listed issuers. The TMX MOU notes that securities regulation requires that the rules of each of the exchanges must not be contrary to public interest and that the rules of each of the exchanges have been approved by the securities regulators. Pursuant to the TMX MOU, CDS will not ban accepting deposits of or transactions for clearing and settlement of securities of issuers with cannabis-related activities in the United States. Even though the TMX MOU indicated that there are no plans to ban the settlement of securities through CDS, there can be no guarantee that this approach to regulation will continue in the future. If such ban were implemented at a time when our common shares are listed on a Canadian stock exchange, it would have a material adverse effect on the ability of holders of our common shares to make and settle trades. In particular, our common shares would become highly illiquid until an alternative (if available) was implemented, and investors would have no ability to affect a trade of our common shares through the facilities of the applicable Canadian stock exchange.

We have obtained eligibility with the Depository Trust Company ("DTC") for our common shares quotation on the OTC Markets and such eligibility provides another possible avenue to clear our common shares in the event of a CDS ban. Revocation of DTC eligibility or implementation by DTC of a ban on the clearing of securities of issuers with cannabis-related activities in the United States would similarly have a material adverse effect on the ability of holders of our common shares to make and settle trades.

***U.S. border officers could deny entry into the United Statesto non-U.S. citizens who are employees of or investors in companies with cannabis operations in the United States or Canada.***

As cannabis remains illegal under U.S. federal law,those non-U.S. citizens who are employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry, or lifetime bans from the United States for their business associations with U.S. or Canadian cannabis businesses. Entry happens at the sole discretion of the U.S. Customs and Border Protection (the "USCBP") officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. As a result, the Canadian government has started warning travelers that previous use of cannabis or any substance prohibited by U.S. federal laws could mean denial of entry to the United States. In addition, business or financial involvement in the legal cannabis industry in Canada or in the United States could also be a reason for USCBP officers to deny entry in the United States. In reaction to the then-impending legalization of cannabis in Canada, the USCBP released a statement outlining its current position with respect to enforcement of U.S. federal laws. The statement specified that Canada's legalization of cannabis would not change the USCBP's enforcement of U.S. federal laws regarding controlled substances, and because cannabis continues to be a controlled substance under the CSA, working in or facilitating the proliferation of the cannabis industry in states or Canada where cannabis is legal may affect admissibility to the United States. Although, the USCBP has affirmed that Canadian citizens "working in or facilitating the proliferation of the legal cannabis industry in Canada, coming to the U.S. for reasons unrelated to the cannabis industry will generally be admissible to the U.S.," if Canadian citizens, or any other travelers, are "found to be coming to the U.S. for reason related to the cannabis industry, they may be deemed inadmissible" and risk being barred from entry into the United States.

Certain of our directors, officers and employees are Canadian citizens and may be subject to denials or bans from entry into the United States by USCBP officers due to their service or employment by us. In the event that any such directors, officers, or employees are hindered or otherwise prevented from entering the U.S., either in one instance or permanently, their ability to provide services to us could be materially hindered, which could have a material adverse effect on our business. In addition, our ability to attract qualified candidates may be diminished by the prospect of a denial or ban from entry into the United States, which could have a material adverse effect on our business.

***State regulatory agencies may require us to post bonds or significant fees.***

There is a risk that a greater number of state regulatory agencies will begin requiring entities engaged in certain aspects of the business or industry of legal marijuana to post a bond or significant fees when applying, for example, for a dispensary license or renewal as a guarantee of payment of sales and franchise taxes. We are not able to quantify at this time the potential scope of such bonds or fees in the states in which it currently operates or may in the future operate. Any bonds or fees of material amounts could have a negative impact on the ultimate success of our business.

***U.S. State regulation of cannabis is uncertain.***

There is no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, our business or operations in those states or under those laws would be materially and adversely affected. Federal actions against any individual or entity engaged in the cannabis industry or a substantial repeal of cannabis related legislation could adversely affect our business.

The rulemaking process at the state level that applies to cannabis operators in any state will be ongoing and result in frequent changes. Regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that we will receive the requisite licenses, permits or cards to continue operating our businesses. In addition, local laws and ordinances could restrict our business activity. Land use, zoning, local ordinances and similar laws could be adopted or changed and have a material adverse effect on our business.

***Because cannabis remains illegal under U.S. federal law, and enforcement of cannabis laws could change, there can be no assurance that our operations will not be deemed to be criminal in nature and/or subject the Company to substantial civil penalties.***

We are engaged in both the medical and adult-use marijuana industry in the United States where local state law permits such activities. Investors are cautioned that in the United States, cannabis is largely regulated at the state level. To our knowledge, there are to date a total of 37 states, and the District of Columbia, that recognize, in one form or another, the medical use of cannabis, including the states in which we operate. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the CSA and as such, cultivation, distribution, sale and possession of cannabis violates federal law in the United States. The inconsistency between federal and state laws and regulations is a major risk factor.

The recent change in Presidential administration will result in a change of leadership including the appointment of a new Attorney General of the United States of America. At this time it is uncertain what policies the new President or Attorney General will take regarding the enforcement of federal cannabis laws. Under the prior administration, federal prosecutors were free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions, but there were no such prosecutions. Due to the fact the leadership of the Department of Justice is changing and has not therefore introduced policies regarding the enforcement of the federal cannabis laws, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Federal law pre-empts state law in these circumstances, so that the federal government can assert criminal violations of federal law despite state law. The level of prosecutions of state-legal cannabis operations is entirely unknown, and the current administration and Department of Justice has not articulated a policy regarding state legal cannabis. It is unclear what position the new Attorney General will take. If the Department of Justice policy were to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then we could face (i) seizure of our cash and other assets used to support or derived from our cannabis subsidiaries; and (ii) the arrest of our employees, directors, officers, managers and investors, who could face charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA.

If the new Administration and Attorney General do not adopt a policy incorporating some or all of the policies articulated in the Cole Memorandum, then the Department of Justice or an aggressive federal prosecutor could allege that we “aided and abetted” violations of federal law by providing finances and services to our operating subsidiaries. Under these circumstances, it is possible that a federal prosecutor could seek to seize our assets and to recover the “illicit profit.” In these circumstances, our operations may cease, and our shareholders may lose their entire investment and our directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on us, including our reputation and ability to conduct business, our holding (directly or indirectly) of medical and adult-use cannabis licenses in the United States, the listing of our securities on the CSE or OTC Markets, our capital, financial position, operating results, profitability or liquidity or the market price of our listed securities.

Overall, an investor’s contribution to and involvement in our activities may result in federal civil and/or criminal prosecution, including forfeiture of his, her or its entire investment.

**Risks Related to Our Securities**

***The market price of our common shares is volatile and may not accurately reflect the long term value of our Company.***

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of our common shares to sell their securities at an advantageous price. Market price fluctuations in our common shares may be due to our operating results, failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts’ estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions, or other material public announcements by us or our competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of our common shares. Financial markets have historically, at times, experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values, or prospects of such companies.

Accordingly, the market price of our common shares may decline even if our operating results, underlying asset values, or prospects have not changed. Additionally, these factors as well as other related factors may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in the price and volume of our common shares will not occur. If such increased levels of volatility and market turmoil continue, our operations could be adversely impacted and the trading price of our common shares may be materially adversely affected.

***There is no assurance that an investment in our common shares will earn any positive return.***

There is no assurance that an investment in our common shares will earn any positive return. An investment in our common shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in our common shares is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

***We have never paid dividends in the past and do not expect to declare or pay dividends in the foreseeable future.***

We have never paid dividends in the past and do not expect to declare or pay dividends on our common shares in the foreseeable future, as we anticipate that we will invest future earnings in the development and growth of our business. Should we declare and pay dividends on our common shares in the future, there may be significant tax implications to holders of our common shares who are recipients of such dividends. For example, as discussed above, we are a Canadian corporation and are classified as a U.S. domestic corporation for U.S. federal income tax purposes under the Section 7874(b) "inversion" rules of the U.S. Tax Code. As such, dividends received by shareholders who are residents of Canada for purposes of the Canadian Tax Act will generally be subject to a 30% U.S. withholding tax. In addition, any such dividends may not qualify for a reduced rate of withholding tax under the U.S.-Canada Treaty, and Canadian foreign tax credits may not be available under the Canadian Tax Act in respect of such taxes. Further, any dividends received by shareholders resident in the United States will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax under the Canadian Tax Act. In the event that we pay any dividends, such dividends will be characterized as U.S. source income for purposes of the foreign tax credit rules under the U.S. Tax Code. Accordingly, shareholders resident in the United States generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, such shareholders have an excess foreign tax credit limitation.

Dividends received by shareholders that are neither Canadian nor U.S. shareholders will be subject to U.S. withholding tax and will also be subject to Canadian withholding tax. These dividends may not qualify for a reduced rate of U.S. withholding tax under any income tax treaty otherwise applicable to our shareholders, subject to examination of the relevant treaty. Because our common shares are treated as shares of a U.S. domestic corporation, the U.S. gift, estate and generation-skipping transfer tax rules generally apply to a non-U.S. shareholder of common shares. Each shareholder should seek tax advice, based on such shareholder's particular circumstances, from an independent tax advisor.

***There is a limited market for our common shares***

Our common shares are listed for trading on the CSE and are quotedover-the-counter in the United States on the OTC Pink Tier of the OTC Markets Group, Inc. The over-the-counter markets provide less liquidity than U.S. national securities exchanges, such as the New York Stock Exchange or Nasdaq. Accordingly, a market for our common shares may become highly illiquid and holders of our common shares may be unable to sell or otherwise dispose of their common shares at desirable prices or at all.

Outstanding and future issuances of debt securities, which would rank senior to our common shares upon bankruptcy or liquidation, may adversely affect the level of return holders of common shares may be able to receive.

We currently have June Secured Debentures, June Unsecured Debentures, Additional Secured Debentures and Senior Secured Bridge Notes outstanding. In the future, we may increase our capital resources by offering additional debt securities. Upon bankruptcy or liquidation, holders of our debt securities and lenders would receive distributions of our available assets prior to any distributions being made to holders our common shares. As our decision to issue debt securities or borrow money from lenders will depend in part on market conditions, we cannot predict or estimate the amount, timing, or nature of any such future offerings or borrowings. Holders of our common shares must bear the risk that current and future securities including the issuance of debt securities may adversely affect the level of return, if any, that the holders of our common shares may receive.

**General Risk Factors**

***Our common shares are subject to the "penny stock" rules of the SEC and the trading market in the securities is limited, which makes transactions in the stock cumbersome and may reduce the value of an investment in the stock.***

Rule 15g-9 under the Exchange Act establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require: (a) that a broker or dealer approve a person's account for transactions in penny stocks; and (b) the broker or dealer receive from the investor a written agreement to the transaction setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must: (a) obtain financial information and investment experience objectives of the person and (b) make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form: (a) sets forth the basis on which the broker or dealer made the suitability determination; and (b) confirms that the broker or dealer received a signed, written agreement from the investor prior to the transaction. Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common shares and cause a decline in the market value of our common shares.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker or dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

***We are an "emerging growth company" and will be able to avail ourselves of reduced disclosure requirements applicable to emerging growth companies, which could make our common shares less attractive to investors.***

We are an "emerging growth company," as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including not being required to comply with the auditor attestation requirements of Section 404(b) of Sarbanes-Oxley, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. In addition, pursuant to Section 107 of the JOBS Act, as an "emerging growth company" we intend to take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We cannot predict if investors will find our common shares less attractive because we may rely on these exemptions. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares and our share price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an "emerging growth company."

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

On June 24, 2022, the Company issued 6,072,579,705 common shares in connection with the closing of the Recapitalization Transaction. The shares were not registered under the Securities Act or the securities laws of any state and were offered and sold in reliance on the exemption from registration under the Securities Act, afforded by Section 3(a)(10) thereunder

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

See Part I, Item 2, "Financial Restructuring" for information regarding the Company's default upon senior securities.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

| Exhibit No. | Description |
| --- | --- |
| 10.1 | Separation Agreement and General Release by and among the Company, iAnthus Capital Management, LLC and Randy Maslow dated April 28, 2022 (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 12, 2022) |
| 10.2 | Consulting Services Agreement by and among the Company, iAnthus Capital Management, LLC and Randy Maslow dated May 6, 2022 (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 12, 2022) |
| 10.3†# | Third Amended and Restated Secured Debenture Purchase Agreement dated June 24, 2022 by and among the Company, iAnthus Capital Management, LLC, the other Credit Parties party thereto, Gotham Green Admin 1, LLC, as Collateral Agent, and the lenders party thereto (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 30, 2022) |
| 10.4†# | Unsecured Debenture Agreement dated June 24, 2022 by and among the Company, as guarantor, iAnthus Capital Management, LLC and the holders of all of the Company's 8% unsecured convertible debentures (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 30, 2022) |
| 10.5 | Form of 8.0% Senior Secured Debenture (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form8-K filed with the SEC on June 30, 2022) |

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|---|---|
| 10.6 | Form of 8.0% Senior Unsecured Debenture (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form8-K filed with the SEC on June 30, 2022) |
| 10.7# | Registration Rights Agreement dated June 24, 2022 by and among the Company, iAnthus Capital Management, LLC and certain holders (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on June 30, 2022) |
| 10.8# | Investor Rights Agreement dated June 24, 2022 by and among the Company, iAnthus Capital Management, LLC and certain investors (Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on June 30, 2022) |
| 31.1* | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2* | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1** | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002 |
| 32.2** | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002 |
| 101.INS* | Inline XBRL Instance Document |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104* | Cover Page Interactive Data File—the cover page from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2022 is formatted in Inline XBRL |

* Filed herewith.

** Furnished herewith.

† Schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company hereby undertakes to furnish supplementally copies of any of the omitted schedules upon request by the Securities and Exchange Commission.

\# Pursuant to Item 601(b)(10) of Regulation S-K, certain confidential portions of this exhibit were omitted by means of marking such portions with an asterisk because the identified confidential portions (i) are not material and (ii) the Company customarily and actually treats that information as private or confidential.

SIGNATURES

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

IANTHUS CAPITAL HOLDINGS, INC.

Date: August 15, 2022

By: /s/ Robert Galvin
Robert Galvin
Interim Chief Executive Officer
(Principal Executive Officer)

Date: August 15, 2022

By: /s/ Julius Kalcevich
Julius Kalcevich
Chief Financial Officer
(Principal Financial and Accounting Officer)

**Exhibit 31.1**

**Certification of Chief Executive Officer of iAnthus Capital Holdings, Inc.**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robert Galvin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of iAnthus Capital Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2022

/s/ Robert Galvin
Robert Galvin
Interim Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**Certification of Chief Financial Officer of iAnthus Capital Holdings, Inc.**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Julius Kalcevich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of iAnthus Capital Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2022

/s/ Julius Kalcevich
Julius Kalcevich
Chief Financial Officer
(Principal Financial and Accounting Officer)

**Exhibit 32.1**

**Certification of Chief Executive Officer**
**Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Robert Galvin, Interim Chief Executive Officer of iAnthus Capital Holdings, Inc. (the “Company”), hereby certifies that based on the undersigned’s knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 15, 2022

/s/ Robert Galvin
Robert Galvin
Interim Chief Executive Officer
(Principal Executive Officer)

**Exhibit 32.2**

**Certification of Chief Financial Officer**
**Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Julius Kalcevich, Chief Financial Officer of iAnthus Capital Holdings, Inc. (the "Company"), hereby certifies that based on the undersigned's knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 15, 2022

/s/ Julius Kalcevich
Julius Kalcevich
Chief Financial Officer
(Principal Financial and Accounting Officer)