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in our Annual Report on Form 10-K for the fiscal year ended December 31, 2025, as may be amended, supplemented or superseded from time to time by other reports we file with the SEC.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 noted.

Overview

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

Through our subsidiaries, we own and/or operate, as of March 31, 2026, 40 dispensaries and four cultivation and/or processing facilities across seven 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 an uncapped number of dispensary licenses in Florida, and up to ten cultivation, manufacturing and/or processing facilities, and we have the right to manufacture and distribute cannabis products in eight U.S. states, all subject to the necessary regulatory approvals.

Our multi-state operations encompass the full spectrum of medical and adult-use cannabis enterprises, including cultivation, processing, product development, wholesale-distribution and retail. Cannabis products offered by us include flower and trim, products containing cannabis flower and trim (such as packaged flower and pre-rolls), cannabis infused products (such as topical creams and edibles) and products containing cannabis extracts (such as vape cartridges, concentrates, live resins, wax products, oils and tinctures). Under U.S. federal law, adult-use cannabis is classified as a Schedule I controlled substance under the U.S. Controlled Substances Act, but as a result of the April 23, 2026 AG Order No. 6754-2026 (the "Rescheduling Order"), medical cannabis subject to a state medical licenses is a Schedule III controlled substance. 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. A Schedule III controlled substance is defined as a substance with a moderate to low potential for physical and psychological dependence. Notwithstanding the Rescheduling Order, cannabis remains federally illegal in most forms and continues to be subject to significant restrictions under U.S. federal law. Other than Epidiolex (cannabidiol), a cannabis-derived product, and three synthetic cannabis-related drug products (Marinol (dronabinol), Syndros (dronabinol) and Cesamet (nabilone), to our knowledge, the U.S. Food and Drug Administration has not approved a marketing application for cannabis for the treatment of any disease or condition and has not approved any cannabis or cannabis-derived products.

Financial Restructuring

The significant disruption of global financial markets, and specifically, the decline in the overall public equity cannabis markets due to the COVID-19 pandemic negatively impacted our ability to secure additional capital, which caused liquidity constraints. In early 2020, due to the liquidity constraints, we attempted to negotiate temporary relief of our interest obligations with the lenders (the "Secured Lenders") of our 13.0% senior secured debentures (the "Secured Notes") issued by our wholly-owned subsidiary, iAnthus Capital Management, LLC ("ICM"). However, we were unable to reach an agreement and did not make interest payments when due and payable to the Secured Lenders or payments that were due to the 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 July 10, 2020, we entered into a restructuring support agreement (as amended on June 15, 2021, the "Restructuring Support Agreement") with the Secured Lenders and certain of our Unsecured Lenders (the "Consenting Unsecured Lenders") to effectuate a recapitalization transaction (the "Recapitalization Transaction") which was consummated on June 24, 2022 (the "Closing Date").

In connection with the closing of the Recapitalization Transaction, we issued an aggregate of 6,072,579,705 common shares to the Secured Lenders and the Unsecured Lenders. Specifically, we issued 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 issuance of the 8.0% secured debentures (the "June Secured Debentures") to the New Secured Lenders in the aggregate principal amount of $99.7 million and (C) the issuance of the 8.0% unsecured debentures (the “June Unsecured Debentures”) to the Secured Lenders 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 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 amended and restated plan of arrangement (the "Plan of Arrangement"), were cancelled and extinguished for no consideration.

Registration Rights Agreement

In connection with the consummation of the Recapitalization Transaction, we entered into 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 ICH, 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.
- a second Investor (the “Second Investor”) shall be entitled to designate up to one individual as a director nominee for so long as such Investor’s Debt Exchange Common Share Percentage is at least 5.0%.
- a third Investor (the “Third Investor”) shall be entitled to designate up to one individual as a director nominee for so long as such Investor’s Debt Exchange Common Share Percentage is at least 5.0%.
- a fourth Investor (the “Fourth Investor”) shall be entitled to designate up to one individual as a director nominee for so long as such Investor’s Debt Exchange Common Share Percentage is at least 5.0%.

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

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

Recent Developments

On April 29, 2026, we appointed Jason Ware as Chief Financial Officer of the Company.

Results of Operations for the Three Months Ended March 31, 2026 and 2025

Revenues and Gross Profit

	Three Months Ended March 31,	
(in '000s of U.S. dollars)	2026	2025
Revenues		
Established Region	$ 14,987	$ 20,609
Emerging Region	18,523	17,512
Total revenues	**$ 33,510**	**$ 38,121**
Costs and expenses applicable to revenues (exclusive of depreciation and amortization expense)		
Established Region	$ (7,479)	$ (9,292)
Emerging Region	(10,110)	(9,951)
Total costs and expenses applicable to revenues (exclusive of depreciation and amortization expense)	**$ (17,589)**	**$ (19,243)**
Gross profit		
Established Region	$ 7,509	$ 11,317
Emerging Region	8,412	7,561
Total gross profit	**$ 15,921**	**$ 18,878**

During the three months ended March 31, 2026, we reassessed our reportable segments in accordance with ASC 280, Segment Reporting. Previously, we reported operations under two reportable segments based on geographic regions: Eastern and Western. Following a review of our operating performance, growth profile, and capital allocation strategy, we determined that the quantitative thresholds under ASC 280-10-50-12 were no longer met under the prior segmentation, and that disaggregating operations based on market maturity and growth profile better reflects how the Chief Operating Decision Maker ("CODM") evaluates performance and allocates resources.

Effective January 1, 2026, the Company changed its reportable segments to Established and Emerging, defined as follows:

The Established region reflects matured markets with limited growth opportunities and a lower allocation of capital investment in the short-term. This region includes operations in Arizona, Massachusetts, and Florida. The Emerging region reflects new markets with strong growth opportunities and/or those receiving higher capital investments. This region includes operations in New Jersey, Maryland, New York, Illinois, and Pennsylvania. Segment information for prior periods presented has been recast to conform to the current period presentation. Current and prior period figures as shown above now reflect the updated reportable regions.

Expenses

(in ’000s of U.S. dollars)	Three Months Ended March 31, 2026	2025
Total operating expenses	$ 18,212	$ 20,888
Total other income and expenses	(5,023)	11,169
Income tax expense (benefit)	6,995	4,009

Selling, General and Administrative Expenses Details

(in ’000s of U.S. dollars)	Three Months Ended March 31, 2026	2025
Salaries and employee benefits	$ 7,741	$ 7,760
Severance	15	—
Share-based compensation	504	521
Legal and other professional fees	1,150	2,401
Facility, insurance and technology costs	2,851	3,186
Marketing expenses	522	1,145
Travel and pursuit costs	293	419
Amortization on right-of-use assets	564	490
Other general corporate expenditures	680	896
Total	**$ 14,320**	**$ 16,818**

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 2026 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 ordinary day-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, gains or losses from the sale of our businesses, and income earned from arrangements that are not from our ordinary revenue streams of retail, wholesale, or the 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 period, 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 March 31, 2026 and 2025

Established region

For the three months ended March 31, 2026, our sales revenues in the established region were $15.0 million as compared to $20.6 million for the three months ended March 31, 2025, which represents a decrease of 27.3%. The main driver for the decrease in revenues was from: a $3.2 million decline in Arizona, attributed to the deconsolidation of three dispensaries and two facility sites following the sale which closed as of February 10, 2025; a $2.8 million decrease in Florida due to continued competitive pressures which led to price compression and lower sales volume during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025. This was partially offset by a $0.3 million increase in revenue in Massachusetts from higher transaction volumes and lower discounts during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025.

For the three months ended March 31, 2026, gross profit was $7.5 million, or 50.1% of sales revenues, as compared to a gross profit of $11.3 million, or 54.9% of sales revenues, for the three months ended March 31, 2025. Gross profit decreased by $4.2 million in Florida due to increased competitive pressures which led to price compression and increased sales discounts during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025. In addition, gross profit decreased by $1.3 million in Arizona during the three months ended March 31, 2026 as compared to the three months ended March 31, 2025, following the asset divestitures in February 2025. The decrease was partially offset by increased gross profit in Massachusetts by $1.7 million due to operational efficiencies from increased production and harvest outputs resulting in lower inventory costs during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025,

During the three months ended March 31, 2026, approximately 6,440 pounds of plant material was harvested in the established region as compared to approximately 10,750 pounds harvested during the three months ended March 31, 2025. The decrease in harvested plant material is primarily attributable to the deconsolidation of our facility sites in Arizona, following the sale which closed on February 10, 2025 and lower volumes in Florida from timing of harvest runs during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025.

Emerging region

For the three months ended March 31, 2026, our sales revenues in the emerging region were $18.5 million as compared to $17.5 million for the three months ended March 31, 2025, which represents an increase of 5.8%. The increase in revenues in the emerging region is attributed to higher revenues in Maryland by $0.9 million, and in New Jersey by $0.4 million from the continued expansion of the wholesale programs in both states during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025.

For the three months ended March 31, 2026, gross profit was $8.4 million, or 45.4% of sales revenues, as compared to a gross profit of $7.6 million, or 43.2% of sales revenues, for the three months ended March 31, 2025. Higher gross profit is attributable to a $1.1 million increase in Maryland from increased sales under toll processing arrangements which yields higher margins during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025. This was partially offset by $0.2 million decrease in gross profit in New Jersey from unfavorable sales mix as we sold more bulk materials during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025.

During the three months ended March 31, 2026, approximately 1,710 pounds of plant material was harvested in the emerging region as compared to approximately 2,020 pounds harvested during the three months ended March 31, 2025. The decrease is attributed to slightly lower volumes cultivated in New Jersey during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025.

Total operating expenses

For the three months ended March 31, 2026, our total operating expenses were $18.2 million as compared to $20.9 million for the three months ended March 31, 2025, which represents a decrease of 12.8%.

The decrease in total operating expenses resulted from a decrease of $2.5 million in our selling, general, and administrative expenses which is attributable to: $1.9 million decrease in legal, marketing and other professional fees during the three months ended March 31, 2026 as compared to the three months ended March 31, 2025, as the prior year period included increased legal fees from divestiture transactions; $0.6 million decrease in marketing expenses during the three months ended March 31, 2026 as compared to the three months ended March 31, 2025; $0.3 million decrease in travel and other general corporate expenditures during the three months ended March 31, 2026 as compared to the three months ended March 31, 2025; and lower facility, insurance and technology costs of $0.3 million during the three months ended March 31, 2026 as compared to the three months ended March 31, 2025.

The decrease in total operating expenses is also attributable to a $0.1 million decrease in our depreciation and amortization expenses during the three months ended March 31, 2026 as compared to the three months ended March 31, 2025. We had a lower depreciable fixed and intangible asset base, as certain items of plant and equipment were fully depreciated in 2025. However, we have made significant investments in capital projects which are not yet in service, and therefore expect depreciation and amortization expenses to increase in future periods.

In addition, the decrease in total operating expenses was attributed to a $0.1 million net increase in recoveries, write-downs and other charges, as improved collection on accounts receivable resulted in lower net credit loss provisions, with a recovery of $0.2 million during the three months ended March 31, 2026 as compared to $0.1 million recovery during the three months ended March 31, 2025.

Total other income and expenses

For the three months ended March 31, 2026, we had a total other expenses of $5.0 million as compared to total other income of $11.2 million for the three months ended March 31, 2025, which represents a decrease of 145.0%.

The decrease in total other income and expenses between the three months ended March 31, 2026 and 2025 is primarily attributable to $16.3 million decrease in interest and other income. The decrease in interest and other income is attributable to: $6.2 million gain on the deconsolidation of certain assets sold as part of AZ Transaction; $5.7 million gain from divestiture of Nevada assets; $3.0 million from employee retention tax credit refunds in Florida; $1.0 million in deferred professional fees forgiveness; $0.3 million from the Cheetah Acquisition contingent consideration remeasurement; partially offset by $0.1 million increase in interest income from our bank accounts. In addition, total other income and expenses decreased by $0.1 million due to lower interest expense on our long-term debt which are paid-in-kind; and lower accretion expense of $0.1 million during the three months ended March 31, 2026 as compared to the three months ended March 31, 2025.

Income tax expense

For the three months ended March 31, 2026, our income tax expense was $7.0 million as compared to $4.0 million for the three months ended March 31, 2025, which represents an increase of 74.5%. The increase in income tax expense is attributable to certain non-deductible items and mix of our pre-tax income across various jurisdictions impacting our effective tax rate during the three months ended March 31, 2026 as compared to the three months ended March 31, 2025.

Liquidity and Capital Resources

As of March 31, 2026, we held unrestricted cash of $11.1 million (December 31, 2025—$11.7 million) and had an accumulated deficit of $1,389.8 million (December 31, 2025—$1,375.5 million) and a working capital deficit of $21.9 million (December 31, 2025—$19.8 million). In assessing our liquidity, we monitor our cash on-hand and our expenditures required to execute our day-to-day operations and our long-term strategic plans. To date, we have financed our operations through equity and debt financings and from our cash flows from operations and we anticipate that we will need to raise additional capital to fund our operations and capital plans in the future. We expect to finance these activities through a combination of additional financings and cash flows from our operations. However, we may be unable to raise additional funds when needed and on favorable terms, or at all, which may have a negative impact on our financial condition and could force us to curtail or cease our operations. Furthermore, our outstanding debt instruments impose certain restrictions on our operating and financing activities, including certain restrictions on our ability to incur certain additional indebtedness, grant liens, make certain dividends and other payment restrictions affecting our subsidiaries, issue shares or convertible securities and sell certain assets. Even if we believe we have sufficient funds for our current or future plans, we may seek additional capital due to favorable market conditions and/or for strategic opportunities and initiatives.

Going Concern

The accompanying 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.

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

Cash Flow for the Three Months Ended March 31, 2026 as Compared to the Three Months Ended March 31, 2025

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 and expansion of newly acquired businesses and the level of cash collections from our customers.

Net cash provided from operating activities during the three months ended March 31, 2026 was $1.0 million as compared to net cash provided by operating activities of $3.1 million for the three months ended March 31, 2025. The decrease in our net cash provided from operating activities during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025, was primarily due to the following: our net loss of $14.3 million, adjusted for $4.7 million in depreciation and amortization expense, $4.1 million in interest expense; $1.1 million of accretion expense; $0.5 million in share-based compensation expense, $0.3 million from the remeasurement of the contingent consideration related to the Cheetah acquisition; $0.1 million from additional inventory reserves; $0.2 million in recoveries, write-downs and other charges, net, from improved collection on accounts receivable resulting in a lower credit loss provision; $0.1 million in interest income from our bank accounts; and $4.9 million from changes in operating assets and liabilities items during the three months ended March 31, 2026.

Changes in other operating assets for the three months ended March 31, 2026 include an increase in cash from inventory of $0.8 million primarily due to the timing of purchases, higher sales volumes in Maryland, New Jersey and Massachusetts during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025, a decrease in accounts receivable of $0.8 million from higher wholesale revenues and timing of collections during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025, and an increase in prepaid expenses of $1.6 million, mainly relating to timing of renewals for insurance and rent during the three months ended March 31, 2026 as compared to the three months ended March 31, 2025.

Changes in other operating liabilities for the three months ended March 31, 2026 include an increase in uncertain tax position liabilities of $3.1 million due to accrued income taxes being recognized as an uncertain tax position during the three months ended March 31, 2026, as compared to the three months ended March 31, 2025; $1.4 million increase in accrued and other current liabilities due to higher accruals for professional fees, payroll and insurance; $0.4 million increase in accounts payable, mainly a function of the timing of the purchases and capex activity as compared to the three months ended March 31, 2025.

As we continue to expand our operations and as these operations become more established, we continue to expect cash flow to be provided from operations, and we intend to place less reliance on financing from other sources to fund our operations. Although we expect to continue to have positive cash flows from operations in 2026, 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 three months ended March 31, 2026, was $1.6 million as compared to $11.1 million in net cash provided from investing activities during the three months ended March 31, 2025. The decrease in cash provided from investing activities was primarily attributable to the $15.8 million proceeds received from the sale of certain assets in Arizona during the three months ended March 31, 2025; this was partially offset by $2.7 million in lower capital expenditures for funding cultivation and dispensary projects in Florida, New York and New Jersey as the projects are now near completion; $0.2 million increase from proceeds from the Arizona and Nevada promissory notes; and $0.1 million decrease in other intangible assets expenditures primarily related to software development during the three months ended March 31, 2026 as compared to the three months ended March 31, 2025.

Financing Activities

Net cash used in financing activities for the three months ended March 31, 2026 was $0.1 million as compared to net cash used in financing activities of $8.3 million for the three months ended March 31, 2025. During the three months ended March 31, 2026 and 2025, we paid less than $0.1 million on our employees' behalf as part of RSUs issuances. Further, we repaid $0.1 million of debt during the three months ended March 31, 2026 as compared to $8.3 million during the three months ended March 31, 2025.

Related Party Transactions

Upon the closing of the Recapitalization Transaction, certain of our lenders held greater than 5% of the voting interests in our Company and therefore are classified as related parties. For further discussion, refer to Note 5 of the unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2026.

Pursuant to the terms of 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, Senvest Master Fund, LP and Hadron Healthcare and Consumer Special Opportunities Master Fund, for certain out-of-pocket costs, charges, fees, taxes and other expenses incurred by the New Secured Lenders in connection with the closing of the Recapitalization Transaction (the "Deferred Professional Fees"). These New Secured Lenders held greater than 5.0% of the outstanding common shares of the Company upon the closing of the Recapitalization Transaction and are therefore considered to be related parties. We had until December 31, 2022, to pay the Deferred Professional Fees ratably based on the amount of each New Secured Lender's Deferred Professional Fees. The Deferred Professional Fees accrued simple interest at the rate of 12.0% from the Closing Date until December 31, 2022. Beginning with the first business day of the month following December 31, 2022, interest shall accrue on the Deferred Professional Fees at the rate of 20.0% calculated on a daily basis and is payable on the first business day of every month until the Deferred Professional Fees and accrued interest thereon is paid in full. On February 5, 2025, we entered into consent and release agreement with Secured Lenders to utilize cash proceeds upon the closing of the AZ Transaction to payments in the amount of $5.0 million towards the principal amount outstanding under the Deferred Professional Fees. In addition, the Secured Lenders agreed to reduce the outstanding amount of the Deferred Professional fees by $1.0 million and reduce interest to 8% on the remaining balance. On September 2, 2025, the Company applied cash proceeds from the sale of the AZ Note, utilizing $0.3 million toward the remaining principal and $0.9 million toward accrued interest under the Deferred Professional Fees. As of March 31, 2026 the outstanding related party portion of the interest payable was $2.2 million (December 31, 2025 - $2.2 million) presented in accrued and other current liabilities on the unaudited interim condensed consolidated balance sheets.

Pursuant to the terms of 2024 NJ Amendment, interest accruing after February 16, 2024 will be payable in cash on the last day of each fiscal quarter (the first such interest payment date being May 16, 2024). As of March 31, 2026, the outstanding related party portion of the interest payable was $0.1 million (December 31, 2025 - $0.1 million) 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, 2025 filed with the SEC on March 27, 2026 which describes the significant accounting policies and methods used in the preparation of our consolidated financial statements.

There have been no other material changes to our critical accounting policies and estimates from the date upon which we filed our Annual Report on Form 10-K for the fiscal year ended December 31, 2025 with the SEC.

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, with respect to (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 $1.235 billion or more; (ii) the last day of our fiscal year following the fifth anniversary of the date of the first sale of our common equity securities under an effective registration statement under the Securities Act; (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 in Rule 12b-2 of 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 Chief Executive Officer and our Chief Financial Officer, have 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 Chief Executive Officer and our Chief Financial Officer have concluded that as of March 31, 2026, our disclosure controls and procedures were not effective due to material weaknesses, which could adversely affect our ability to record, process, summarize, and report financial data. Such weaknesses include: (1) reviewing relevant Service Organization Control Reports for key third party service providers; (2) performing effective risk assessment and/or monitor internal controls over financial reporting.

We have developed a plan to remediate the material weaknesses, which includes dedicating additional resources to assess and improve our ITGCs, and developing a roadmap to become SOX compliant by the required deadline.

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.