
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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: **333-254800**



ASCEND WELLNESS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

83-0602006

(I.R.S. Employer Identification No.)

1411 Broadway

16th Floor

New York, NY 10018

(Address of principal executive offices)

(646) 661-7600

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

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, a non-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-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 Rule 12b-2 of the Exchange Act). Yes No

As of August 10, 2022, there were 188,163,575 shares of the registrant’s Class A common stock, par value \$0.001, and 65,000 shares of the registrant’s Class B common stock, par value \$0.001, outstanding.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” regarding Ascend Wellness Holdings, Inc. and its subsidiaries (collectively referred to as “AWH,” “we,” “us,” “our,” or the “Company”). We make forward-looking statements related to future expectations, estimates, and projections that are uncertain and often contain words such as, but not limited to, “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “likely,” “may,” “outlook,” “plan,” “predict,” “should,” “target,” or other similar words or phrases. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties, and assumptions that are difficult to predict. Particular risks and uncertainties that could cause our actual results to be materially different from those expressed in our forward-looking statements include those listed below:

- the effect of the volatility of the market price and liquidity risks on shares of our Class A common stock;
- the effect of the voting control exercised by holders of Class B common stock;
- our ability to attract and maintain key personnel;
- our ability to continue to open new dispensaries and cultivation facilities as anticipated;
- the illegality of cannabis under federal law;
- our ability to comply with state and federal regulations;
- the uncertainty regarding enforcement of cannabis laws;
- the effect of restricted access to banking and other financial services;
- the effect of constraints on marketing and risks related to our products;
- the effect of unfavorable tax treatment for cannabis businesses;
- the effect of security risks;
- the effect of infringement or misappropriation claims by third parties;
- our ability to comply with potential future U.S. Food and Drug Administration regulations;
- our ability to enforce our contracts;
- the effect of unfavorable publicity or consumer perception;
- the effect of risks related to material acquisitions, dispositions and other strategic transactions;
- the effect of agricultural and environmental risks;
- the effect of risks related to information technology systems;
- the effect of product liability claims and other litigation to which we may be subjected;
- the effect of risks related to the results of future clinical research;
- the effect of intense competition in the industry;
- the effect of adverse changes in the wholesale and retail prices;
- the effect of outbreaks of pandemic diseases, fear of such outbreaks or economic disturbances due to such outbreaks, particularly the impact of the COVID-19 pandemic; and
- the effect of general economic risks, such as the unemployment level, interest rates and inflation, and challenging global economic conditions.

The list of factors above is illustrative and by no means exhaustive. Additional information regarding these risks and other risks and uncertainties we face is contained in our Annual Report on Form 10-K for the year ended December 31, 2021 and in other reports we may file from time to time with the United States Securities and Exchange Commission and the applicable Canadian securities regulatory authorities (including all amendments to those reports). Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated, or intended.

We urge readers to consider these risks and uncertainties in evaluating our forward-looking statements. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASCEND WELLNESS HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

<i>(in thousands, except per share amounts)</i>	June 30, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	\$ 140,551	\$ 155,481
Accounts receivable, net	9,171	7,612
Inventory	87,493	65,588
Notes receivable	4,541	4,500
Other current assets	18,194	24,831
Total current assets	259,950	258,012
Property and equipment, net	239,367	239,656
Operating lease right-of-use assets	110,252	103,958
Intangible assets, net	155,573	59,271
Goodwill	43,018	42,967
Deferred tax assets, net	705	—
Other noncurrent assets	19,928	19,572
TOTAL ASSETS	\$ 828,793	\$ 723,436
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 59,967	\$ 45,454
Current portion of debt, net	11,231	27,940
Operating lease liabilities, current	2,198	2,665
Income taxes payable	44,096	36,184
Other current liabilities	4,552	5,152
Total current liabilities	122,044	117,395
Long-term debt, net	282,050	230,846
Operating lease liabilities, noncurrent	228,079	197,295
Deferred tax liabilities, net	—	1,423
Other non-current liabilities	10,000	—
Total liabilities	642,173	546,959
Commitments and contingencies (Note 15)		
Stockholders' Equity		
Preferred stock, \$0.001 par value per share; 10,000 shares authorized, none issued and outstanding as of June 30, 2022 and December 31, 2021 (Note 12)	—	—
Class A common stock, \$0.001 par value per share; 750,000 shares authorized; 187,430 and 171,521 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively (Note 12)	187	171
Class B common stock, \$0.001 par value per share, 100 shares authorized; 65 issued and outstanding at June 30, 2022 and December 31, 2021 (Note 12)	—	—
Additional paid-in capital	421,669	362,555
Accumulated deficit	(235,236)	(186,249)
Total stockholders' equity	186,620	176,477
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 828,793	\$ 723,436

The accompanying notes are an integral part of the condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<i>(in thousands, except per share amounts)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue, net	\$ 97,499	\$ 83,367	\$ 182,589	\$ 149,504
Cost of goods sold	(64,531)	(48,851)	(126,174)	(85,321)
Gross profit	32,968	34,516	56,415	64,183
Operating expenses				
General and administrative expenses	33,573	30,612	66,800	55,758
Settlement expense	—	—	5,000	36,511
Total operating expenses	33,573	30,612	71,800	92,269
Operating (loss) profit	(605)	3,904	(15,385)	(28,086)
Other (expense) income				
Interest expense	(9,246)	(36,888)	(15,277)	(44,225)
Other, net	151	82	254	162
Total other expense	(9,095)	(36,806)	(15,023)	(44,063)
Loss before income taxes	(9,700)	(32,902)	(30,408)	(72,149)
Income tax expense	(11,472)	(11,995)	(18,579)	(20,971)
Net loss	\$ (21,172)	\$ (44,897)	\$ (48,987)	\$ (93,120)
Net loss per share attributable to Class A and Class B common stockholders — basic and diluted (Note 12)	\$ (0.11)	\$ (0.30)	\$ (0.27)	\$ (0.73)
Weighted-average common shares outstanding — basic and diluted	185,308	150,341	178,898	128,392

The accompanying notes are an integral part of the condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

Six Months Ended June 30, 2022

<i>(in thousands)</i>	Class A and Class B Common Stock		Additional Paid- In Capital	Accumulated Deficit	Total
	Shares	Amount			
December 31, 2021	171,586	\$ 171	\$ 362,555	\$ (186,249)	\$ 176,477
Vesting of equity-based payment awards	4,131	4	(4)	—	—
Equity-based compensation expense	—	—	14,306	—	14,306
Taxes withheld under equity-based compensation plans, net	(1,260)	(1)	(4,941)	—	(4,942)
Net loss	—	—	—	(27,815)	(27,815)
March 31, 2022	174,457	\$ 174	\$ 371,916	\$ (214,064)	\$ 158,026
Shares issued in acquisitions or asset purchases	12,900	13	42,944	—	42,957
Vesting of equity-based payment awards	138	—	—	—	—
Equity-based compensation expense	—	—	4,170	—	4,170
Issuance of warrants	—	—	2,639	—	2,639
Net loss	—	—	—	(21,172)	(21,172)
June 30, 2022	187,495	\$ 187	\$ 421,669	\$ (235,236)	\$ 186,620

The accompanying notes are an integral part of the condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

Six Months Ended June 30, 2021

<i>(in thousands)</i>	Historical LLC Units	Class A and Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
		Shares	Amount			
December 31, 2020	106,082	—	\$ —	\$ 67,378	\$ (63,592)	\$ 3,786
Vesting of restricted common units	1,033	—	—	—	—	—
Equity-based compensation expense	50	—	—	2,487	—	2,487
Reserve for equity issued in litigation settlement	—	—	—	27,431	—	27,431
Net loss	—	—	—	—	(48,223)	(48,223)
March 31, 2021	107,165	—	\$ —	\$ 97,296	\$ (111,815)	\$ (14,519)
Release of reserve for equity issued in litigation settlement	—	—	—	(27,431)	—	(27,431)
Equity issued in litigation settlement	5,025	—	—	27,431	—	27,431
Conversion of historical common units	(55,330)	55,330	55	(55)	—	—
Conversion of historical preferred units	(58,036)	58,036	58	(58)	—	—
Issuance of common stock in public offerings, net of \$5,935 of underwriting commissions and discounts and offering expenses	—	11,500	12	86,053	—	86,065
Conversion of convertible notes upon initial public offering	—	37,388	37	137,718	—	137,755
Beneficial conversion feature associated with conversion of preferred units upon initial public offering	—	3,420	3	27,358	—	27,361
Vesting of restricted common units	1,176	3,155	3	(3)	—	—
Equity-based compensation expense	—	—	—	1,711	—	1,711
Repurchase of warrants	—	—	—	(4,156)	—	(4,156)
Net loss	—	—	—	—	(44,897)	(44,897)
June 30, 2021	—	168,829	\$ 168	\$ 345,864	\$ (156,712)	\$ 189,320

The accompanying notes are an integral part of the condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<i>(in thousands)</i>	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities		
Net loss	\$ (48,987)	\$ (93,120)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	18,138	11,911
Amortization of operating lease assets	837	612
Non-cash interest expense	3,413	35,898
Equity-based compensation expense	11,630	4,198
Equity issued in litigation settlement	—	27,431
Deferred income taxes	(2,128)	(1,056)
Loss on sale of assets	746	—
Changes in operating assets and liabilities, net of effects of acquisitions		
Accounts receivable	(1,559)	1,401
Inventory	(24,468)	(19,992)
Other current assets	4,467	(4,084)
Other noncurrent assets	(358)	(9,110)
Accounts payable and accrued liabilities	11,038	19,245
Other current liabilities	(601)	1,415
Lease liabilities	(585)	464
Income taxes payable	7,912	12,732
Net cash used in operating activities	(20,505)	(12,055)
Cash flows from investing activities		
Additions to capital assets	(32,442)	(56,046)
Investments in notes receivable	(1,390)	(1,656)
Collection of notes receivable	164	164
Proceeds from sale of assets	39,225	—
Acquisition of businesses, net of cash acquired	(24,890)	(13,630)
Purchase of intangible assets	(29,009)	—
Net cash used in investing activities	(48,342)	(71,168)
Cash flows from financing activities		
Proceeds from issuance of common stock in public offerings, net of underwriting discounts and commissions and offering expenses	—	86,065
Proceeds from issuance of debt	65,000	49,500
Repayments of debt	(1,455)	(2,071)
Debt issuance costs	(4,686)	—
Taxes withheld under equity-based compensation plans, net	(4,942)	—
Repurchase of warrants	—	(4,156)
Net cash provided by financing activities	53,917	129,338
Net (decrease) increase in cash, cash equivalents, and restricted cash	(14,930)	46,115
Cash, cash equivalents, and restricted cash at beginning of period	155,481	58,097
Cash, cash equivalents, and restricted cash at end of period	\$ 140,551	\$ 104,212

The accompanying notes are an integral part of the condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED, UNAUDITED)

<i>(in thousands)</i>	Six Months Ended June 30,	
	2022	2021
Supplemental Cash Flow Information		
Interest paid	\$ 10,515	\$ 6,103
Income taxes paid	12,807	9,311
Non-cash investing and financing activities		
Capital expenditures incurred but not yet paid	8,818	13,734
Issuance of shares for intangible assets	42,957	—
Warrants issued with notes payable	2,639	—
Financing costs incurred but not yet paid	300	—
Conversion of convertible notes and accrued interest upon initial public offering	—	137,755
Conversion of preferred units into Class A common stock upon initial public offering	—	70,660
Beneficial conversion feature associated with conversion of preferred units upon initial public offering	—	27,361
Direct issuance costs incurred but not yet paid	—	156

The accompanying notes are an integral part of the condensed consolidated financial statements.

1. THE COMPANY AND NATURE OF OPERATIONS

Ascend Wellness Holdings, Inc., which operates through its subsidiaries (collectively referred to as “AWH,” “Ascend,” “we,” “us,” “our,” or the “Company”), is a multi-state operator in the United States cannabis industry. AWH owns, manages, and operates cannabis cultivation facilities and dispensaries in several states across the United States, including Illinois, Michigan, Ohio, Massachusetts, New Jersey, and Pennsylvania. AWH is headquartered in New York, New York.

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

Following the Conversion, the Company has authorized 750,000 shares of Class A common stock with a par value of \$0.001 per share, 100 shares of Class B common stock with a par value of \$0.001 per share and 10,000 shares of preferred stock with a par value of \$0.001 per share. The rights of the holders of Class A common stock and Class B common stock are identical, except for voting and conversion rights. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is entitled to 1,000 votes per share and is convertible at any time into one share of Class A common stock at the option of the holder. On May 4, 2021, the Company completed an Initial Public Offering (“IPO”) of its Class A common stock. See Note 12, “Stockholders’ Equity,” for additional details.

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

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with (i) United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information, and (ii) the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of our management, our unaudited condensed consolidated financial statements and accompanying notes (the “Financial Statements”) include all normal recurring adjustments that are necessary for the fair statement of the interim periods presented. Interim results of operations are not necessarily indicative of results for the full year, or any other period. The Financial Statements should be read in conjunction with our audited consolidated financial statements (and notes thereto) in our Annual Report on Form 10-K for the year ended December 31, 2021 (the “Annual Report”), as filed with the United States Securities and Exchange Commission (“SEC”) and with the relevant Canadian securities regulatory authorities under its profile on the System for Electronic Document Analysis and Retrieval (“SEDAR”). Except as noted below, there have been no material changes to the Company’s significant accounting policies and estimates during the six months ended June 30, 2022.

The Financial Statements include the accounts of Ascend Wellness Holdings, Inc. and its subsidiaries. Refer to Note 8, “Variable Interest Entities,” for additional information regarding certain entities that are not wholly-owned by the Company. We include the results of acquired businesses in the consolidated statements of operations from their respective acquisition dates. All intercompany accounts and transactions have been eliminated in consolidation.

Ascend Wellness Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(in thousands, except per unit or per share data)

We round amounts in the Financial Statements to thousands, except per unit or per share amounts or as otherwise stated. We calculate all percentages, per-unit, and per-share data from the underlying whole-dollar amounts. Thus, certain amounts may not foot, crossfoot, or recalculate based on reported numbers due to rounding. Unless otherwise indicated, all references to years are to our fiscal year, which ends on December 31.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts. We base our estimates on historical experience, known or expected trends, independent valuations, and various other measurements that we believe to be reasonable under the circumstances. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Liquidity

As reflected in the Financial Statements, the Company had an accumulated deficit as of June 30, 2022 and December 31, 2021, as well as a net loss for the three and six months ended June 30, 2022 and 2021, and negative cash flows from operating activities during the six months ended June 30, 2022 and 2021, which are indicators that raise substantial doubt of our ability to continue as a going concern. Management believes that substantial doubt of our ability to continue as a going concern for at least one year from the issuance of these Financial Statements has been alleviated due to: (i) cash on hand and (ii) continued growth of sales from our consolidated operations. Management plans to continue to access capital markets for additional funding through debt and/or equity financings to supplement future cash needs, as may be required. However, management cannot provide any assurances that the Company will be successful in accomplishing its business plans. If the Company is unable to raise additional capital whenever necessary, it may be forced to decelerate or curtail certain of its operations until such time as additional capital becomes available.

Cash and Cash Equivalents and Restricted Cash

As of June 30, 2022 and December 31, 2021, we did not hold significant restricted cash or cash equivalents.

Fair Value of Financial Instruments

During the six months ended June 30, 2022 and 2021, we had no transfers of assets or liabilities between any of the hierarchy levels.

In addition to assets and liabilities that are measured at fair value on a recurring basis, we are also required to measure certain assets at fair value on a non-recurring basis that are subject to fair value adjustments in specific circumstances. These assets can include: goodwill; intangible assets; property and equipment; and lease related right-of use assets. We estimate the fair value of these assets using primarily unobservable Level 3 inputs.

Basic and Diluted Loss per Share

The Company computes earnings (loss) per share ("EPS") using the two-class method required for multiple classes of common stock. The rights, including the liquidation and dividend rights, of the Class A common stock and Class B common stock are substantially identical, except for voting and conversion rights. As the liquidation and dividend rights are identical, undistributed earnings are allocated on a proportionate basis to each class of common stock and the resulting basic and diluted net loss per share attributable to common stockholders are, therefore, the same for both Class A and Class B common stock on both an individual and combined basis. EPS and weighted-average shares outstanding for the three and six months ended June 30, 2022 and 2021 have been computed on the basis of treating the historical common unit equivalents previously outstanding as shares of Class A common stock, as such historical units converted into shares of Class A common stock in the Conversion.

Basic EPS is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted EPS reflects potential dilution and is computed by dividing net loss by the weighted average number of common shares outstanding during the period increased by the number of additional common shares that would have been outstanding if all potential common shares had been issued and were dilutive. However,

potentially dilutive securities are excluded from the computation of diluted EPS to the extent that their effect is anti-dilutive. Potential dilutive securities in the current year include incremental shares of common stock issuable upon the exercise of warrants, unvested restricted stock awards, unvested restricted stock units, and outstanding stock options. Potential dilutive securities in the prior year include incremental shares of common stock issuable upon the exercise of warrants and unvested restricted stock awards. At June 30, 2022 and 2021, 13,294 and 5,400 shares of common stock equivalents, respectively, were excluded from the calculation of diluted EPS because their inclusion would have been anti-dilutive.

Shares of restricted stock granted by us are considered to be legally issued and outstanding as of the date of grant, notwithstanding that the shares remain subject to the risk of forfeiture if the vesting conditions for such shares are not met, and are included in the number of shares of Class A common stock outstanding disclosed on the cover page of this Quarterly Report on Form 10-Q. Weighted-average common shares outstanding excludes time-based and performance-based unvested shares of restricted Class A common stock, as restricted shares are treated as issued and outstanding for financial statement presentation purposes only after such shares have vested and, therefore, have ceased to be subject to a risk of forfeiture.

Recently Adopted Accounting Standards

Debt

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. ASU 2020-06 became effective for us on January 1, 2022 and did not have a significant impact on our consolidated financial statements upon adoption.

Modification or Exchanges of Freestanding Equity-Classified Written Call Options

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt – Modifications and Extinguishments (Subtopic 470-50), Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in an Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting For Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*, (“ASU 2021-04”). ASU 2021-04 provides clarification and reduces diversity in an issuer’s accounting for certain modifications or exchanges of freestanding equity-classified written call options, such as warrants, that remain equity classified after modification or exchange. ASU 2021-04 became effective for us on January 1, 2022 and did not have a significant impact on our consolidated financial statements upon adoption.

Recently Issued Accounting Pronouncements

The following standards have been recently issued by the FASB. Pronouncements that are not applicable to the Company or where it has been determined do not have a significant impact on us have been excluded herein.

Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, (“ASU 2016-13”). ASU 2016-13 replaces the existing guidance surrounding measurement and recognition of credit losses on financial assets measured at amortized cost, including trade receivables and investments in certain debt securities, by requiring recognition of an allowance for credit losses expected to be incurred over an asset’s life based on relevant information about past events, current conditions, and supportable forecasts impacting its ultimate collectability. This current expected credit losses (“CECL”) model will result in earlier recognition of credit losses than the current “as incurred” model, under which losses are recognized only upon the occurrence of an event that gives rise to the incurrence of a probable loss.

Ascend Wellness Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(in thousands, except per unit or per share data)

ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*, was issued in May 2019 to provide target transition relief allowing entities to make an irrevocable one-time election upon adoption of the new credit losses standard to measure financial assets previously measured at amortized cost (except held-to-maturity securities) using the fair value option.

ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, was issued in November 2019 to clarify, improve, and amend certain aspects of ASU 2016-13, such as disclosures related to accrued interest receivables and the estimation of credit losses associated with financial assets secured by collateral.

ASU 2020-03, *Codification Improvements to Financial Instruments*, was issued in March 2020 to improve and clarify various financial instruments topics, including the CECL standard issued in 2016. The ASU includes seven different issues that describe the areas of improvement and the related amendments to U.S. GAAP, intended to make the standards easier to understand and apply by eliminating inconsistencies and providing clarifications. Certain amendments contained within this update were effective upon issuance and had no material impact on our Financial Statements.

ASU 2016-13 and its related ASUs are effective for us beginning January 1, 2023. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This guidance was effective upon issuance as of March 12, 2020 and may be adopted as reference rate reform activities occur through December 31, 2022. We have not yet applied any of the expedients and exceptions and do not expect this guidance to have a material impact on our consolidated financial statements.

3. REPORTABLE SEGMENTS AND REVENUE

The Company operates under one operating segment, which is its only reportable segment: the production and sale of cannabis products. The Company prepares its segment reporting on the same basis that its Chief Operating Decision Maker manages the business and makes operating decisions. The Company’s measure of segment performance is net income and derives its revenue primarily from the sale of cannabis products. All of the Company’s operations are located in the United States.

Disaggregation of Revenue

The Company disaggregates its revenue from the direct sale of cannabis to customers as retail revenue and wholesale revenue. We have determined that disaggregating revenue into these categories best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

<i>(in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Retail revenue	\$ 75,556	\$ 58,038	\$ 138,846	\$ 103,559
Wholesale revenue	42,114	39,473	80,047	69,815
	117,670	97,511	218,893	173,374
Elimination of inter-company revenue	(20,171)	(14,144)	(36,304)	(23,870)
Total revenue, net	\$ 97,499	\$ 83,367	\$ 182,589	\$ 149,504

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The liability related to the loyalty program we offer dispensary customers at certain locations was \$562 and \$518 at June 30, 2022 and December 31, 2021, respectively, and is included within “Other current liabilities” on the accompanying unaudited Condensed Consolidated Balance Sheets. As of June 30, 2022 and December 31, 2021, the Company recorded \$341 and \$374, respectively, in allowance for doubtful accounts. Write-offs were not significant during the three and six months ended June 30, 2022 and 2021.

4. ACQUISITIONS

Business Combinations

The Company has determined that the acquisitions discussed below are considered business combinations under ASC Topic 805, *Business Combinations*, (“ASC Topic 805”) and are accounted for by applying the acquisition method, whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair values of the identifiable net assets allocated to goodwill. Operating results are included in the Financial Statements from the date of the acquisition.

The preliminary purchase price allocation for each acquisition reflects various preliminary fair value estimates and analyses, including certain tangible assets acquired and liabilities assumed, the valuation of intangible assets acquired, and goodwill, which are subject to change within the measurement period as preliminary valuations are finalized (generally one year from the acquisition date). Measurement period adjustments are recorded in the reporting period in which the estimates are finalized and adjustment amounts are determined.

2021 Acquisitions

Effective May 5, 2021, the Company completed the acquisition of the parent company of Hemma, LLC (“Hemma”), the owner of a medical cultivation site in Ohio. Effective October 1, 2021, the Company completed the acquisition of BCCO, LLC (“BCCO”), a medical dispensary license holder in Ohio. Additionally, effective December 22, 2021, the Company completed the acquisition of Ohio Cannabis Clinic, LLC (“OCC”), a medical dispensary license holder in Ohio.

During the six months ended June 30, 2022, we recorded a measurement period purchase accounting adjustment of \$51 related to the OCC acquisition for the final working capital adjustment, with a related impact to goodwill. No significant adjustments were recorded in finalizing the purchase price allocation for Hemma during the three and six months ended June 30, 2022.

Financial and Pro Forma Information

The following table summarizes the revenue and net (loss) income related to Hemma, BCCO, and OCC that is included in our consolidated results for the three and six months ended June 30, 2022.

<i>(in thousands)</i>	Three Months Ended June 30, 2022		
	Hemma	BCCO	OCC
Revenue, net	\$ 303	\$ 1,882	\$ 1,349
Net (loss) income	(950)	440	154

<i>(in thousands)</i>	Six Months Ended June 30, 2022		
	Hemma	BCCO	OCC
Revenue, net	\$ 447	\$ 3,661	\$ 2,723
Net (loss) income	(1,240)	778	358

Our results of operations for the three and six months ended June 30, 2021 include \$101 of net loss related to Hemma and no revenue.

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Pro forma financial information is not presented for Hemma, BCCO, or OCC as such results are immaterial, individually and in aggregate, to both the current and prior periods.

Asset Acquisitions

The Company determined the acquisition below did not meet the definition of a business and is therefore accounted for as an asset acquisition using the cost accumulation model whereby the cost of the acquisition, including certain transaction costs, is allocated to the assets acquired on a relative fair value basis.

Story of PA

On April 19, 2022, the Company acquired Story of PA CR, LLC (“Story of PA”). Total consideration for the acquisition of the outstanding equity interests in Story of PA was \$53,127, consisting of 12,900 shares of Class A common stock with a fair value of \$42,957 and cash consideration of \$10,170. Story of PA received a clinical registrant permit from the Pennsylvania Department of Health on March 1, 2022. Through a research collaboration agreement with the Geisinger Commonwealth School of Medicine (“Geisinger”), a Pennsylvania Department of Health-Certified Medical Marijuana Academic Clinical Research Center, the Company intends to open a cultivation and processing facility and up to six medical dispensaries throughout the Commonwealth of Pennsylvania. The Company will help fund clinical research to benefit the patients of Pennsylvania by contributing \$30,000 to Geisinger over the next two years (of which \$15,000 was funded in April 2022), and up to an additional \$10,000 over the next ten years.

The total acquisition cost was \$100,203, as summarized in the table below, and was allocated to the license intangible asset acquired. The license will be amortized in accordance with the Company’s policy once operations commence.

(in thousands)

Equity consideration ⁽¹⁾	\$	42,957
Cash consideration		10,170
Geisinger funding commitment ⁽²⁾		40,000
Other liabilities assumed ⁽³⁾		5,130
Forgiveness of bridge loan ⁽⁴⁾		1,349
Transaction costs		595
Cost of initial investment		2
Total	\$	100,203

⁽¹⁾ Comprised of 12,900 shares of Class A common stock with a fair value of \$42,957 at issuance.

⁽²⁾ Of the total funding commitment, \$15,000 was paid in April 2022 and \$15,000 is due in April 2023 and is included within “Accounts payable and other accrued liabilities” on the unaudited Condensed Consolidated Balance Sheet at June 30, 2022. An additional \$10,000 is due annually from the third anniversary of the transaction through the tenth anniversary based on a percentage of revenue (after operations commence) and is included within “Other non-current liabilities” on the unaudited Condensed Consolidated Balance Sheet at June 30, 2022.

⁽³⁾ Liabilities related to two consulting agreements assumed in the transaction. A total of \$2,772 related to one agreement was paid during the second quarter of 2022. A payment of \$472 related to the second agreement was made during the second quarter of 2022 and a total of \$1,886 is due, in quarterly payments, through June 2023 and is included within “Accounts payable and other accrued liabilities” on the unaudited Condensed Consolidated Balance Sheet at June 30, 2022.

⁽⁴⁾ Refer to Note 6, “Notes Receivable,” for additional information on the bridge loan agreement.

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5. INVENTORY

The components of inventory are as follows:

<i>(in thousands)</i>	June 30, 2022	December 31, 2021
Materials and supplies	\$ 17,280	\$ 8,899
Work in process	39,544	28,235
Finished goods	30,669	28,454
Total	\$ 87,493	\$ 65,588

Total compensation expense capitalized to inventory was \$12,421 and \$8,157 during the three months ended June 30, 2022 and 2021, respectively, and \$25,555 and \$14,520 during the six months ended June 30, 2022 and 2021, respectively. At June 30, 2022 and December 31, 2021, \$10,453 and \$8,571, respectively, of compensation expense remained capitalized as part of inventory.

6. NOTES RECEIVABLE

<i>(in thousands)</i>	June 30, 2022	December 31, 2021
MMNY - working capital loan ⁽¹⁾	\$ 2,422	\$ 2,422
Marichron - note receivable ⁽²⁾	1,500	1,500
Marichron - working capital loan ⁽²⁾	619	78
Other ⁽³⁾	—	500
Total	\$ 4,541	\$ 4,500

⁽¹⁾ On February 25, 2021, the Company entered into a working capital advance agreement with MedMen NY, Inc. (“MMNY”), an unrelated third party, in conjunction with an Investment Agreement (as defined in Note 15, “Commitments and Contingencies”). The working capital advance agreement allows for initial maximum borrowings of up to \$10,000, which may be increased to \$17,500, and was issued to provide MMNY with additional funding for operations in conjunction with the Investment Agreement. Borrowings do not bear interest, but may be subject to a financing fee. The outstanding balance is due and payable at the earlier of the initial closing of the Investment Agreement or, if the Investment Agreement is terminated for certain specified reasons, three business days following such termination. Additional borrowing requests are at the Company’s discretion.

⁽²⁾ In April 2019, the Company issued a \$1,500 promissory note to Marichron Pharma LLC (“Marichron”), an unrelated third party, with a stated interest rate of 12% per year. The Company also entered into a working capital line of credit with Marichron, allowing for maximum borrowings of \$1,000. The promissory note and working capital line of credit were issued in conjunction with a unit purchase option agreement that the parties entered into during 2019 and were issued to provide Marichron with additional funding for operations. The note, as amended, matures at the earlier of the definitive closing of the unit purchase option agreement or December 31, 2022. The Company submitted a license transfer application to the state in June 2022, which approval remains pending, and may settle the outstanding balances as part of the purchase price at closing following state approval.

⁽³⁾ In November 2021, the Company issued a bridge loan to Story of PA that provided for maximum borrowings of up to \$16,000 with an interest rate of 9% per annum. Repayment was due at maturity in November 2023 or upon an event of default (as defined in the bridge loan agreement). In April 2022, the Company acquired the outstanding equity interests of Story of PA (refer to Note 4, “Acquisitions”) and settled the balance of \$1,349 due under the bridge loan as additional consideration at closing.

In addition to the activity described above, in May 2022 the Company issued a secured promissory note to a retail dispensary license holder in Massachusetts providing up to \$3,500 of funding (the “Massachusetts Note”), of which none is outstanding as of June 30, 2022. The Massachusetts Note accrues interest at a fixed annual rate of 11.5%. Following the opening of the borrower’s retail dispensary, the principal amount is due monthly through the maturity date of May 25, 2026. The borrower may prepay the outstanding principal amount, plus accrued interest thereon. Borrowings under the Massachusetts Note are secured by the assets of the borrower. The borrower is partially owned by an entity that is managed, in part, by one of the founders of the Company.

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Additionally, a total of \$4,260 is outstanding at June 30, 2022 related to a promissory note issued to the owner of a property the Company is leasing, of which \$160 and \$4,100 is included in “Other current assets” and “Other noncurrent assets,” respectively, on the unaudited Condensed Consolidated Balance Sheet. At December 31, 2021, \$4,337 was outstanding, of which \$156 and \$4,181 is included in “Other current assets” and “Other noncurrent assets,” respectively, on the unaudited Condensed Consolidated Balance Sheet.

The Company has not identified any collectability concerns as of June 30, 2022 for the amounts due under notes receivable. No impairment losses on notes receivable were recognized during the six months ended June 30, 2022 or 2021.

7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

<i>(in thousands)</i>	June 30, 2022	December 31, 2021
Leasehold improvements	\$ 145,471	\$ 103,976
Furniture, fixtures, and equipment	54,241	49,058
Buildings	49,976	45,663
Construction in progress	19,867	60,986
Land	2,430	1,302
Property and equipment, gross	271,985	260,985
Less: accumulated depreciation	32,618	21,329
Property and equipment, net	\$ 239,367	\$ 239,656

Total depreciation expense was \$6,296 and \$3,509 during the three months ended June 30, 2022 and 2021, respectively, and \$11,674 and \$6,461 during the six months ended June 30, 2022 and 2021, respectively. Total depreciation expense capitalized to inventory was \$4,764 and \$2,378 during the three months ended June 30, 2022 and 2021, respectively, and \$8,972 and \$4,334 during the six months ended June 30, 2022 and 2021, respectively. At June 30, 2022 and December 31, 2021, \$4,772 and \$2,070, respectively, of depreciation expense remained capitalized as part of inventory.

During the six months ended June 30, 2022, we recognized a loss of \$874 related to the sale of three properties, net of a \$72 gain on sale recognized during the three months ended June 30, 2022, which is included within “General and administrative expenses” on the unaudited Condensed Consolidated Statement of Operations, and wrote-off \$385 of accumulated depreciation.

In June 2022, the Company entered into a master lease agreement under which the Company may be reimbursed for up to \$15,000 of equipment purchases, which the Company will subsequently lease back pursuant to individual lease agreements. No such individual lease agreements were in effect as of June 30, 2022.

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8. VARIABLE INTEREST ENTITIES

A variable interest entity (“VIE”) is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured that such equity investors lack the ability to make significant decisions relating to the entity’s operations through voting rights or do not substantively participate in the gains or losses of the entity. The primary beneficiary has both the power to direct the activities of the VIE that most significantly impact the entity’s economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

We assess all variable interests in the entity and use our judgment when determining if we are the primary beneficiary. Other qualitative factors that are considered include decision-making responsibilities, the VIE capital structure, risk and rewards sharing, contractual agreements with the VIE, voting rights, and level of involvement of other parties. We assess the primary beneficiary determination for a VIE on an ongoing basis if there are any changes in the facts and circumstances related to a VIE.

Where we determine we are the primary beneficiary of a VIE, we consolidate the accounts of that VIE. The equity owned by other stockholders is shown as non-controlling interests in the accompanying unaudited Condensed Consolidated Balance Sheets, Statements of Operations, and Statements of Changes in Stockholders’ Equity. The assets of the VIE can only be used to settle obligations of that entity, and any creditors of that entity generally have no recourse to the assets of other entities or the Company unless the Company separately agrees to be subject to such claims.

The following tables present the summarized financial information about the Company’s consolidated VIE that is included in the unaudited Condensed Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021 and in the unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2022 and 2021. This entity was determined to be a VIE since the Company possesses the power to direct the significant activities of the VIE and has the obligation to absorb losses or the right to receive benefits from the VIE.

<i>(in thousands)</i>	Ascend Illinois	
	June 30, 2022	December 31, 2021
Current assets	\$ 77,692	\$ 111,118
Other noncurrent assets	171,436	171,566
Current liabilities	70,534	71,264
Noncurrent liabilities	115,004	126,397
Equity	54,797	41,873

<i>(in thousands)</i>	Ascend Illinois					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	2022	2021		
Revenue, net	\$ 64,914	\$ 68,083	\$ 128,806	\$ 122,821		
Net income	5,902	9,329	13,200	16,423		

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9. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

<i>(in thousands)</i>	June 30, 2022	December 31, 2021
Finite-lived intangible assets		
Licenses and permits	\$ 155,484	\$ 55,281
In-place leases	19,963	19,963
Trade names	380	380
	<u>175,827</u>	<u>75,624</u>
Accumulated amortization:		
Licenses and permits	(8,218)	(5,415)
In-place leases	(11,656)	(10,558)
Trade names	(380)	(380)
	<u>(20,254)</u>	<u>(16,353)</u>
Total intangible assets, net	<u>\$ 155,573</u>	<u>\$ 59,271</u>

Amortization expense was \$1,931 and \$1,687 during the three months ended June 30, 2022 and 2021, respectively, and \$3,901 and \$3,372 during the six months ended June 30, 2022 and 2021, respectively. Total amortization expense capitalized to inventory was \$406 and \$348 during the three months ended June 30, 2022 and 2021, respectively, and \$814 and \$610 during the six months ended June 30, 2022 and 2021, respectively. At June 30, 2022 and December 31, 2021, \$680 and \$502, respectively, of amortization expense remained capitalized as part of inventory.

No impairment indicators were noted during the six months ended June 30, 2022 or 2021 and, as such, we did not record any impairment charges during either period.

Goodwill

<i>(in thousands)</i>	
Balance, December 31, 2021	\$ 42,967
Adjustments to purchase price allocation ⁽¹⁾	51
Balance, June 30, 2022	<u>\$ 43,018</u>

⁽¹⁾ During the six months ended June 30, 2022, we recorded measurement period purchase accounting adjustments related to one of our 2021 acquisitions. See Note 4, "Acquisitions," for additional information.

10. LEASES

The Company leases land, buildings, equipment, and other capital assets which it uses for corporate purposes and the production and sale of cannabis products. We determine if an arrangement is a lease at inception and begin recording lease activity at the commencement date, which is generally the date in which we take possession of or control the physical use of the asset. Right-of-use ("ROU") assets and lease liabilities are recognized based on the present value of lease payments over the lease term with lease expense recognized on a straight-line basis. We use our incremental borrowing rate to determine the present value of future lease payments unless the implicit rate is readily determinable. Our incremental borrowing rate is the rate of interest we would have to pay to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. This incremental borrowing rate is applied to the minimum lease payments within each lease agreement to determine the amounts of our ROU assets and lease liabilities.

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Our lease terms range from 1 to 20 years. Some leases include one or more options to renew, with renewal terms that can extend the lease terms. We typically exclude options to extend the lease in a lease term unless it is reasonably certain that we will exercise the option and when doing so is at our sole discretion. The depreciable lives of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise. Typically, if we decide to cancel or terminate a lease before the end of its term, we would owe the lessor the remaining lease payments under the term of such lease. Our lease agreements generally do not contain any material residual value guarantees or material restrictive covenants. We may rent or sublease to third parties certain real property assets that we no longer use.

Lease agreements may contain rent escalation clauses, rent holidays, or certain landlord incentives, including tenant improvement allowances. ROU assets include amounts for scheduled rent increases and are reduced by lease incentive amounts. Certain of our lease agreements include variable rent payments, consisting primarily of rental payments adjusted periodically for inflation and amounts paid to the lessor based on cost or consumption, such as maintenance and utilities. Variable rent lease components are not included in the lease liability.

The components of lease assets and lease liabilities and their classification on our unaudited Condensed Consolidated Balance Sheets were as follows:

<i>(in thousands)</i>	Classification	June 30, 2022	December 31, 2021
Lease assets			
Operating leases	Operating lease right-of-use assets	\$ 110,252	\$ 103,958
Lease liabilities			
Current liabilities			
Operating leases	Operating lease liabilities, current	\$ 2,198	\$ 2,665
Noncurrent liabilities			
Operating leases	Operating lease liabilities, noncurrent	228,079	197,295
Total lease liabilities		\$ 230,277	\$ 199,960

The components of lease costs and classification within the unaudited Condensed Consolidated Statements of Operations were as follows:

<i>(in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating lease costs				
Capitalized to inventory	\$ 6,778	\$ 4,620	\$ 13,836	\$ 9,114
General and administrative expenses	927	1,310	1,259	2,590
Total operating lease costs	\$ 7,705	\$ 5,930	\$ 15,095	\$ 11,704

At June 30, 2022 and December 31, 2021, \$5,713 and \$4,393, respectively, of lease costs remained capitalized in inventory. We recognized a gain of \$128 during the six months ended June 30, 2022 related to the termination of two of our leases, which is included in "General and administrative expenses" on the unaudited Condensed Consolidated Statement of Operations.

The following table presents information on short-term and variable lease costs:

<i>(in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Total short-term and variable lease costs	\$ 1,263	\$ 174	\$ 2,469	\$ 826

Sublease income generated during the three and six months ended June 30, 2022 and 2021 was immaterial.

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The following table includes supplemental cash and non-cash information related to our leases:

<i>(in thousands)</i>	Six Months Ended June 30,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 14,880	\$ 10,568
ROU assets obtained in exchange for new lease obligations		
Operating leases	\$ 33,844	\$ 17,759

The weighted-average remaining lease term for our real estate leases is 15.6 years and 15.8 years at June 30, 2022 and December 31, 2021, respectively, and the weighted-average discount rate is 14.8% and 12.7% at June 30, 2022 and December 31, 2021, respectively.

The amounts of future undiscounted cash flows related to the lease payments over the lease terms and the reconciliation to the present value of the lease liabilities as recorded on our unaudited Condensed Consolidated Balance Sheet as of June 30, 2022 are as follows:

<i>(in thousands)</i>	Operating Lease Liabilities
Remainder of 2022	\$ 16,260
2023	33,508
2024	34,450
2025	35,418
2026	36,022
Thereafter	475,680
Total lease payments	631,338
Less: imputed interest	401,061
Present value of lease liabilities	\$ 230,277

Lease Amendments

In March 2022, we amended the leases related to our Athol, Massachusetts and Lansing, Michigan cultivation facilities to increase the tenant improvement allowance for each, which resulted in increased rent amounts. We accounted for the amendments as lease modifications and remeasured each ROU asset and lease liability as of the amendment dates. The modifications resulted in a total additional tenant improvement allowance of \$19,300, a reduction of \$22,483 to total ROU assets, and a reduction of \$3,183 to total lease liabilities.

Sale Leaseback Transactions

In February 2022, the Company sold and subsequently leased back one of its capital assets in New Jersey for total proceeds of \$35,400, excluding transaction costs. The transaction met the criteria for sale leaseback treatment. The lease was recorded as an operating lease and resulted in a lease liability of \$33,707 and an ROU asset of \$29,107, which was recorded net of a \$4,600 tenant improvement allowance.

In June 2022, the Company sold and subsequently leased back two of its capital assets in Pennsylvania for total proceeds of \$3,825, excluding transaction costs. Each transaction met the criteria for sale leaseback treatment. The leases were recorded as operating leases and resulted in a total lease liability and ROU asset of \$2,102. Each of the lease agreements provide for a capital expenditure allowance of up to \$3,000. The rent payments due under each lease will increase by a percentage of the capital expenditure allowance as funding occurs, and, therefore, each lease will be reassessed and remeasured as a modification upon such funding. As of June 30, 2022, no amounts were funded under the capital expenditure allowance for either lease.

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On June 29, 2021, a wholly owned subsidiary of the Company entered into a definitive agreement for the sale of certain real estate and related assets of a commercial property located in New Bedford, Massachusetts to a third-party for a total purchase price of \$350, subject to certain adjustments, which remains pending. The closing is subject to certain conditions, including entering into an operating lease with the third-party. The Company anticipates this transaction will be accounted for either as a sale leaseback transaction or a finance liability, depending on the final lease terms.

The following table presents cash payments due under transactions that did not qualify for sale-leaseback treatment. The cash payments are allocated between interest and liability reduction, as applicable. The “sold” assets remain within land, buildings, and leasehold improvements, as appropriate, for the duration of the lease and a financing liability equal to the amount of proceeds received is recorded within “Long-term debt, net” on the accompanying unaudited Condensed Consolidated Balance Sheets.

<i>(in thousands)</i>	Remainder of 2022	2023	2024	2025	2026	Thereafter	Total
Cash payments due under financing liabilities	\$ 1,050	\$ 2,143	\$ 2,206	\$ 2,271	\$ 2,338	\$ 6,811	\$ 16,819

11. DEBT

<i>(in thousands)</i>	June 30, 2022	December 31, 2021
2021 Credit Facility ⁽¹⁾	\$ 275,000	\$ 210,000
Sellers’ Notes ⁽²⁾	12,825	39,116
Finance liabilities	17,750	17,750
Total debt	\$ 305,575	\$ 266,866
Current portion of debt	\$ 11,257	\$ 27,980
Less: unamortized deferred financing costs	26	40
Current portion of debt, net	\$ 11,231	\$ 27,940
Long-term debt	\$ 294,318	\$ 238,886
Less: unamortized deferred financing costs	12,268	8,040
Long-term debt, net	\$ 282,050	\$ 230,846

⁽¹⁾ On August 27, 2021, the Company entered into a credit agreement with a group of lenders (the “2021 Credit Agreement”) that provided for an initial term loan of \$210,000 (the “2021 Credit Facility”), which was borrowed in full. The 2021 Credit Agreement provided for an expansion feature that allowed the Company to request an increase in the 2021 Credit Facility up to \$275,000 if the then-existing lenders (or other lenders) agreed to provide such additional term loans. During the second quarter of 2022, the Company borrowed an additional \$65,000 pursuant to the expansion feature (the “2022 Loans”) for total borrowings of \$275,000 under the 2021 Credit Facility.

The 2021 Credit Facility matures on August 27, 2025 and does not require scheduled principal amortization payments. Borrowings under the 2021 Credit Facility bear interest at a rate of 9.5% per annum, payable quarterly and, as to any portion of the term loan that is prepaid, on the date of prepayment. The 2021 Credit Agreement permits the Company to request an extension of the maturity date for 364 days, subject to the lenders’ discretion.

We incurred initial financing costs of \$8,806 and additional financing costs of \$7,594 related to the 2022 Loans, which includes warrants issued to certain lenders to acquire 3,130 shares of Class A common stock that had a fair value of \$2,639 at issuance (refer to Note 12, “Stockholders’ Equity,” for additional information). The financing costs are being amortized to interest expense over the term of 2021 Credit Facility using the straight-line method which approximates the interest rate method. The 2022 Loans were funded by a combination of new and existing lenders. Borrowings from the existing lenders were accounted for as a modification of existing debt, with the exception of one lender that was considered an extinguishment. We recognized a loss on extinguishment of \$2,180 as a component of interest expense during the three and

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six months ended June 30, 2022, comprised of the write-off of \$337 related to the lender’s initial term loan and \$1,843 related to the lender’s new loan, which included the estimated fair value of the warrants issued to the lender.

The 2021 Credit Agreement requires mandatory prepayments from proceeds of certain events, including the proceeds of indebtedness that is not permitted under the agreement and asset sales and casualty events, subject to customary reinvestment rights. The Company may prepay the 2021 Credit Facility at any time, subject to a customary make-whole payment or prepayment penalty, as applicable. Once repaid, amounts borrowed under the 2021 Credit Facility may not be re-borrowed.

The Company is required to comply with two financial covenants under the 2021 Credit Agreement. The Company may not permit its liquidity (defined as unrestricted cash and cash equivalents pledged under the 2021 Credit Facility plus any future revolving credit availability) to be below \$20,000 as of the last day of any fiscal quarter. Additionally, the Company may not permit the ratio of Consolidated EBITDA (as defined in the 2021 Credit Agreement) to consolidated cash interest expense for any period of four consecutive fiscal quarters to be less than 2.50:1.00 for the period ending June 30, 2022 and thereafter. The Company has a customary equity cure right for each of these financial covenants. The Company is in compliance with these covenants as of June 30, 2022.

The 2021 Credit Agreement requires the Company to make certain representations and warranties and to comply with customary covenants, including restrictions on the payment of dividends, repurchase of stock, incurrence of indebtedness, dispositions, and acquisitions. The 2021 Credit Agreement also contains customary events of default including: non-payment of principal or interest; violations of covenants; bankruptcy; change of control; cross defaults to other debt; and material judgments. The 2021 Credit Facility is guaranteed by all of the Company’s subsidiaries and is secured by substantially all of the assets of the Company and its subsidiaries.

⁽²⁾ Sellers’ Notes consist of amounts owed for acquisitions or other purchases. During the six months ended June 30, 2022, we repaid \$24,839 to the former owners of two entities that we previously acquired, which is included in “Current portion of debt, net” on the unaudited Condensed Consolidated Balance Sheet at December 31, 2021. A total of \$8,000, with an interest rate of 13% per annum, remains due to the former owners of one entity that we previously acquired and is included on the unaudited Condensed Consolidated Balance Sheets under the caption “Current portion of debt, net” at June 30, 2022 and Long-term debt, net” at December 31, 2021.

Additionally, at June 30, 2022, \$4,825 remains due under the purchase of a non-controlling interest, of which \$3,257 and \$1,568 is included in “Current portion of debt, net” and “Long-term debt, net” respectively on the unaudited Condensed Consolidated Balance Sheet. At December 31, 2021, \$3,140 and \$3,136 is included in “Current portion of debt, net” and “Long-term debt, net” respectively.

Debt Maturities

During the six months ended June 30, 2022, we repaid \$24,839 of sellers’ notes related to two previous acquisitions and \$1,455 of sellers’ notes related to the former owners of a previous non-controlling interest.

At June 30, 2022, the following cash payments are required under our debt arrangements:

<i>(in thousands)</i>	Remainder of 2022	2023	2024	2025	2026	Total
Sellers’ notes ⁽¹⁾	\$ 1,688	\$ 11,143	\$ —	\$ —	\$ —	\$ 12,831
Term note maturities	—	—	—	275,000	—	275,000

⁽¹⁾ Certain cash payments include an interest accretion component.

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Interest Expense

Interest expense during the three and six months ended June 30, 2022 and 2021 consisted of the following:

<i>(in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cash interest	\$ 5,887	\$ 3,742	\$ 10,830	\$ 7,325
Accretion	662	5,283	1,235	8,538
Loss on extinguishment of debt	2,180	—	2,180	—
Interest on financing liability ⁽¹⁾	517	502	1,032	1,001
Non-cash interest related to beneficial conversion feature ⁽²⁾	—	27,361	—	27,361
Total	\$ 9,246	\$ 36,888	\$ 15,277	\$ 44,225

⁽¹⁾ Interest on financing liability related to failed sale leaseback transactions. See Note 10, “Leases,” for additional details.

⁽²⁾ See Note 12, “Stockholders’ Equity,” for additional details.

12. STOCKHOLDERS’ EQUITY

Following the Conversion, the Company has authorized 750,000 shares of Class A common stock with a par value of \$0.001 per share, 100 shares of Class B common stock with a par value of \$0.001 per share, and 10,000 shares of preferred stock with a par value of \$0.001 per share.

Holders of each share of Class A common stock are entitled to one vote per share and holders of Class B common stock are entitled to 1,000 votes per share. Holders of Class A common stock and Class B common stock will vote together as a single class on all matters (including the election of directors) submitted to a vote of stockholders, unless otherwise required by law or our certificate of incorporation. Each share of Class B common stock is convertible at any time into one share of Class A common stock at the option of the holder. In addition, each share of Class B common stock will automatically convert into one share of Class A common stock on May 4, 2026, the final conversion date. Each share of Class B common stock will convert automatically into one share of Class A common stock upon any transfer, whether or not for value, except for certain transfers described in our certificate of incorporation, including, without limitation, transfers for tax and estate planning purposes, so long as the transferring holder of Class B common stock continues to hold exclusive voting and dispositive power with respect to any such transferred shares. Once converted into a share of Class A common stock, a converted share of Class B common stock will not be reissued, and following the conversion of all outstanding shares of Class B common stock, no further shares of Class B common stock will be issued.

Subject to preferences that may apply to any shares of preferred stock outstanding at the time and any contractual limitations, such as our credit agreements, the holders of our common stock will be entitled to receive dividends out of funds then legally available, if any, if our board of directors (the “Board”), in its discretion, determines to issue dividends and then only at the times and in the amounts that our Board may determine. If a dividend is paid in the form of a Class A common stock or Class B common stock, then holders of Class A common stock shall receive Class A common stock and holders of Class B common stock shall receive Class B common stock.

In the event of a liquidation, dissolution, or winding up, holders of Class A common stock and Class B common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then-outstanding shares of preferred stock.

In the event of any change of control transaction in respect of the Company, shares of our Class A common stock and Class B common stock shall be treated equally, ratably, and identically, on a per share basis, with respect to any consideration into which such shares are converted or any consideration paid or otherwise distributed to stockholders of the Company, unless different treatment of the shares of each class is approved by the affirmative

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vote of the holders of a majority of the outstanding shares of Class A common stock and Class B common stock, each voting separately as a class.

Immediately prior to the Conversion, the Company was authorized to issue Common Units, Preferred Units, and Restricted Common Units (see Note 13, "Equity-Based Compensation Expense"), all with no par value. Preferred Units collectively included Series Seed Preferred Units, Series Seed+ Preferred Units, and Real Estate Preferred Units, unless otherwise specified. These share classes are included within "Additional Paid-In Capital" in the unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity on an as-converted to historical common units basis. In conjunction with the Conversion, each historical common unit then-outstanding converted into one share of Class A common stock, except 65 units that were allocated to shares of Class B common stock.

On May 4, 2021, the Company completed an IPO of its Class A common stock, in which it issued and sold 10,000 shares of Class A common stock at a price of \$8.00 per share. On May 7, 2021, the underwriters exercised their over-allotment option in full and we issued and sold an additional 1,500 shares of Class A common stock. We received total net proceeds of approximately \$86,065 after deducting underwriting discounts and commissions and certain other direct offering expenses paid by us. In conjunction with the IPO, each Real Estate Preferred Unit converted into Class A common stock at a rate of one plus 1.5x, divided by the IPO price of \$8.00 per share, for a total of 26,221 shares of Class A common stock. The additional 3,420 shares issued per the conversion feature was considered a contingent beneficial conversion feature and was recognized when the conversion event occurred and the contingency was resolved, for a total non-cash interest charge of \$27,361. Each Series Seed Preferred Unit and Series Seed+ Preferred Unit converted into shares of Class A common stock on a one-for-one basis. Additionally, the then-outstanding convertible promissory notes, plus accrued interest, converted into a total of 37,388 shares of Class A common stock.

The following table summarizes the total shares of Class A common stock and Class B common stock outstanding as of June 30, 2022 and December 31, 2021:

<i>(in thousands)</i>	June 30, 2022	December 31, 2021
Shares of Class A common stock	187,430	171,521
Shares of Class B common stock	65	65
Total	187,495	171,586

Warrants

The following table summarizes the warrants activity during the six months ended June 30, 2022:

	Number of Warrants (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Exercise Period (years)	Aggregate Intrinsic Value (in thousands)⁽¹⁾
Outstanding, December 31, 2021 ⁽²⁾	3,531	\$ 4.00	2.0	\$ 9,216
Granted ⁽³⁾	3,130	3.10		
Expired	(765)	4.00		
Outstanding, June 30, 2022	<u>5,896</u>	\$ 3.52	3.2	\$ —

⁽¹⁾ Based on the amount by which the closing market price of our Class A common stock exceeds the exercise price on each date indicated.

⁽²⁾ In conjunction with the Conversion, the holders of warrants to acquire 3,531 common units at an exercise price of \$4.00 received warrants to acquire an equal number of shares of Class A common stock (the "Historical Warrants"). The Historical Warrants are equity-classified instruments, are subject to customary anti-dilution adjustments, are stand-alone instruments, and are not part of the terms of the notes with which they were originally issued (as applicable). The Historical Warrants had an estimated total fair value of \$237 at issuance, which was calculated using a Black-Scholes model. The fair value per

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Historical Warrant ranged from \$0.02 to \$0.10 and significant assumptions used in the calculation included volatility ranging from 69.2% to 108.4% and risk-free rates ranging from 0.17% to 2.17%.

⁽³⁾ In June 2022, in connection with the 2022 Loans (refer to Note 11, “Debt”), the Company issued warrants to purchase up to 3,130 shares of Class A common stock (the “2022 Warrants”). Each warrant is exercisable for one share of Class A common stock at an exercise price of \$3.10 per share. The 2022 Warrants are immediately exercisable and have a four year term. The 2022 Warrants had a total estimated fair value of \$2,639 at issuance, which was calculated using a Black-Scholes model. The fair value per 2022 Warrant was \$0.84 and significant assumptions used in the calculation included volatility of 70% and a risk-free rate of 3.0%. Cashless exercise is permitted only if there is no effective registration statement registering the resale of the shares issued upon exercise. The Company will have the option to require the holders to exercise the 2022 Warrants if, after the first anniversary of the issuance, the 30-day volume-weighted average price of the Company’s Class A common stock exceeds \$6.50 per share. The 2022 Warrants are equity-classified instruments, are subject to customary anti-dilution adjustments, are stand-alone instruments, and are not part of the notes with which they were issued.

No warrants were exercised during the three and six months ended June 30, 2022.

13. EQUITY-BASED COMPENSATION EXPENSE

Equity Incentive Plans

The Company adopted an incentive plan in November 2020 (the “2020 Plan”) which authorized the issuance of incentive common unit options and restricted common units (collectively, “Awards”). The maximum number of Awards to be issued under the 2020 Plan is 10,031 and any Awards that expire or are forfeited may be re-issued. A total of 9,994 Awards had been issued under the plan as of June 30, 2022. The Awards generally vest over two or three years. The estimated fair value of the Awards at issuance is recognized as compensation expense over the related vesting period.

In conjunction with the Conversion, the holders of the restricted common units issued under the 2020 Plan received one restricted share of Class A common stock (a “Restricted Common Share”) for each restricted common unit held immediately prior to the Conversion.

The following table summarizes the restricted common shares activity during the six months ended June 30, 2022:

<i>(in thousands)</i>	Restricted Common Shares
Unvested, December 31, 2021	1,653
Vested	(866)
Forfeited	(12)
Unvested, June 30, 2022	775

As of June 30, 2022, total unrecognized compensation cost related to the restricted common shares was \$157, which is expected to be recognized over a weighted-average remaining vesting period of 0.4 years.

In July 2021, the Company adopted a new stock incentive plan (the “2021 Plan”), pursuant to which 17,000 shares of Class A common stock are reserved for issuance thereunder, subject to certain adjustments and other terms. Following the adoption of the 2021 Plan, no additional awards are expected to be issued under the 2020 Plan. The 2021 Plan authorized the issuance of stock options, stock appreciation rights (“SAR Awards”), restricted stock awards (“RSAs”), restricted stock units (“RSUs”), and other stock-based awards (collectively the “2021 Plan Awards”). Any 2021 Plan Awards that expire or are forfeited may be re-issued. The estimated fair value of the 2021 Plan Awards at issuance is recognized as compensation expense over the related vesting, exercise, or service periods, as applicable. As of June 30, 2022, there were 6,920 shares of Class A common stock available for grant for future equity-based compensation awards under the 2021 Plan. Activity related to awards issued under the 2021 Plan is further described below. As of June 30, 2022, no SAR Awards and no RSAs have been granted under the 2021 Plan.

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Stock Options

The following table summarizes stock option activity during the six months ended June 30, 2022:

<i>(in thousands, except per share amounts)</i>	Options Outstanding			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value ⁽¹⁾
Outstanding, December 31, 2021	—	\$ —	—	\$ —
Granted	1,331	\$ 4.10		
Forfeited	(126)	\$ 4.10		
Outstanding, June 30, 2022	1,205	\$ 4.10	4.7	\$ —
Exercisable at June 30, 2022	—	\$ 4.10	4.7	\$ —

⁽¹⁾ Based on the amount by which the closing market price of our Class A common stock exceeds the exercise price on each date indicated.

No options were exercised during the six months ended June 30, 2022. As of June 30, 2022, total unrecognized stock-based compensation expense related to unvested options was \$2,196, which is expected to be recognized over a weighted-average remaining vesting period of 2.2 years.

We determine the fair value of stock options on the grant date using a Black-Scholes option pricing model. The fair value of stock options granted during the six months ended June 30, 2022 was calculated on the date of grant using the following weighted-average assumptions:

	Six Months Ended June 30, 2022
Risk-free interest rate	2.6 %
Expected term (years)	3.75
Dividend yield	0 %
Expected volatility	70.0 %

Using the Black-Scholes option pricing model, the weighted-average fair value of stock options granted during the six months ended June 30, 2022 was \$1.97 per share.

Restricted Stock Units

The following table summarizes the RSU activity during the six months ended June 30, 2022:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value per Share
Unvested, December 31, 2021	6,329	\$ 10.48
Granted	3,259	3.87
Vested ⁽¹⁾	(3,403)	6.46
Forfeited	(767)	7.96
Unvested, June 30, 2022	5,418	\$ 9.39

⁽¹⁾ Includes 1,260 vested shares that were withheld to cover tax obligations and were subsequently canceled.

As of June 30, 2022, total unrecognized compensation cost related to the RSUs was \$45,094, which is expected to be recognized over a weighted-average remaining vesting period of 1.8 years.

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Compensation Expense by Type of Award

The following table details the equity-based compensation expense by type of award for the periods presented:

<i>(in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
RSUs ⁽¹⁾	\$ 5,719	\$ —	\$ 11,252	\$ —
Restricted Common Shares	49	1,711	204	4,198
Stock Options	147	—	174	—
Total equity-based compensation expense	\$ 5,915	\$ 1,711	\$ 11,630	\$ 4,198

⁽¹⁾ Includes RSUs issued for the 2021 annual performance bonus, which is included within “Accounts payable and accrued liabilities” on the unaudited Condensed Consolidated Balance Sheet at December 31, 2021. These RSUs vested at issuance with a value of \$7,959, which reflects a change in estimate of \$632 that is included as a reduction to equity-based compensation expense and is included within “General and administrative expenses” on the unaudited Condensed Consolidated Statements of Operations for the six months ended June 30, 2022. This amount also includes \$1,745 recognized during the three and six months ended June 30, 2022 for the 2022 annual performance bonus, which is included within “Accounts payable and accrued liabilities” on the unaudited Condensed Consolidated Balance Sheet at June 30, 2022.

Of the total equity-based compensation expense, \$2,027 and \$5,238 was capitalized to inventory during the three and six months ended June 30, 2022 and \$2,890 and \$4,814 remains capitalized as of June 30, 2022 and December 31, 2021, respectively. No equity-based compensation expense was capitalized during the three and six months ended June 30, 2021. During the three and six months ended June 30, 2022 we recognized \$3,888 and \$6,392, respectively, within “General and administrative expenses” and \$3,167 and \$7,162, respectively, within “Cost of goods sold” on the unaudited Condensed Consolidated Statements of Operations. During the three and six months ended June 30, 2021 we recognized \$1,711 and \$4,198, respectively, within “General and administrative expenses” and none within “Costs of goods sold” on the unaudited Condensed Consolidated Statements of Operations.

Employee Stock Purchase Plan

In July 2021, the Company also adopted an employee stock purchase plan (the “2021 ESPP”), pursuant to which 4,000 shares of Class A common stock are reserved for issuance thereunder, subject to certain adjustments and other terms. No shares have been issued under the 2021 ESPP as of June 30, 2022.

14. INCOME TAXES

<i>(\$ in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Loss before income taxes	\$ (9,700)	\$ (32,902)	\$ (30,408)	\$ (72,149)
Income tax expense	11,472	11,995	18,579	20,971
Effective tax rate	(118.3)%	(36.5)%	(61.1)%	(29.1)%
Gross profit	\$ 32,968	\$ 34,516	\$ 56,415	\$ 64,183
Effective tax rate on gross profit	34.8 %	34.8 %	32.9 %	32.7 %

Since the Company operates in the cannabis industry, it is subject to the limitations of Internal Revenue Code (“IRC”) Section 280E, which prohibits businesses engaged in the trafficking of Schedule I or Schedule II controlled substances from deducting ordinary and necessary business expenses from gross profit. Cannabis businesses operating in states that align their tax codes with IRC Section 280E are also unable to deduct ordinary and necessary business expenses for state tax purposes. Ordinary and necessary business expenses deemed non-deductible under IRC Section 280E are treated as permanent book-to-tax differences. Therefore, the effective tax

rate can be highly variable and may not necessarily correlate with pre-tax income or loss. As such, the effective tax rate for the three and six months ended June 30, 2022 varies from the effective tax rate for the three and six months ended June 30, 2021 due to the tax-effected change in nondeductible expenses under IRC Section 280E as a proportion of pre-tax loss during the period.

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

15. COMMITMENTS AND CONTINGENCIES

Commitments

The Company does not have significant future annual commitments, other than related to leases and debt, which are disclosed in Notes 10 and 11, respectively, and certain payments related to acquisitions, as disclosed in Note 4.

As of June 30, 2022, we entered into agreements to purchase one property in New York and one property in Pennsylvania for a combined total purchase price of \$25,500, subject to closing adjustments. In August 2022, the Company decided it no longer intends to consummate the purchase of the New York property. The closing of the Pennsylvania property is expected during 2022, but is dependent on certain conditions, including inspection.

In conjunction with the OCC acquisition (see Note 4, "Acquisitions") in December 2021, the Company entered into a supply agreement with a producer and supplier of medical marijuana products in Ohio (the "Ohio Supply Agreement") with an initial expiration date of August 2028. Under the Ohio Supply Agreement, the Company will purchase products from the supplier that results in 7.5% of the Company's monthly gross sales of all products in its Ohio dispensaries for the first five years, and 5% for the remaining term. The Company can establish the selling price of the products and the purchases are made at the lowest then-prevailing wholesale market price of products sold by the supplier to other dispensaries in Ohio.

Legal and Other Matters

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management believes that the Company is in compliance with applicable local and state regulations as of June 30, 2022 in all material respects, cannabis regulations continue to evolve and are subject to differing interpretations, and accordingly, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

State laws that permit and regulate the production, distribution, and use of cannabis for adult use or medical purposes are in direct conflict with the Controlled Substances Act (21 U.S.C. § 811) (the "CSA"), which makes cannabis use and possession federally illegal. Although certain states and territories of the United States authorize medical and/or adult use cannabis production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under the CSA. Although the Company's activities are believed to be compliant with applicable state and local laws, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.

The Company may be, from time to time, subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. Contingent liabilities associated with legal proceedings are recorded when a liability is probable and the contingent liability can be estimated. We do not accrue for contingent losses that, in our judgment, are considered to be reasonably possible but not probable. At June 30, 2022 there were

no pending or threatened lawsuits that could reasonably be expected to have a material effect on our consolidated results of operations, other than as disclosed below.

Stockholder Dispute

On May 28, 2021, Senvest Management, LLC, Hadron Capital (Cayman) LTD., and Measure8 Venture Partners, LLC (collectively, the “Claimants”), as former holders of convertible notes issued and sold by the Company (the “AWH Convertible Promissory Notes”) pursuant to the Company’s convertible note purchase agreement dated as of June 12, 2019 (the “2019 Convertible Note Purchase Agreement”), filed an arbitration demand, which was subsequently amended on July 28, 2021 (the “Arbitration Demand”), against the Company and its Chief Executive Officer, Abner Kurtin, before the American Arbitration Association. In their Arbitration Demand, the Claimants take issue with the April 22, 2021 amendment of the terms of the 2019 Convertible Note Purchase Agreement (the “Amended Notes Consent”), which was approved by holders of approximately 66% of the principal amount of the AWH Convertible Promissory Notes, in excess of the simple majority required to amend the AWH Convertible Promissory Notes. The Amended Notes Consent set the conversion price of the AWH Convertible Promissory Notes at \$2.96 per share. The Claimants alleged that the Amended Notes Consent was obtained improperly and is void. The Company disputed the Claimants’ allegations and contended that the Amended Notes Consent was properly obtained in accordance with the terms of the AWH Convertible Promissory Notes and 2019 Convertible Note Purchase Agreement and the Amended Notes Consent was binding on all holders of the AWH Convertible Promissory Notes.

The Company, Mr. Kurtin, and the Claimants entered into a settlement agreement, dated April 29, 2022, whereby the Company agreed to pay the Claimants a total of \$5,000. This amount is included within “Settlement expense” on the unaudited Condensed Consolidated Statements of Operations in the Financial Statements for the six months ended June 30, 2022 and was paid in May 2022.

MedMen NY Litigation

On February 25, 2021, the Company entered into a definitive investment agreement (the “Investment Agreement”) with subsidiaries of MedMen Enterprises Inc. (“MedMen”), under which we would have, subject to regulatory approval, completed an investment (the “Investment”) of approximately \$73,000 in MedMenNY, Inc. (“MMNY”), a licensed medical cannabis operator in the State of New York. Following the completion of the transactions contemplated by the Investment Agreement, we were expected to hold all the outstanding equity of MMNY. Specifically, the Investment Agreement provided that at closing, the Company was going to pay to MedMen’s senior lenders \$35,000, less certain transaction costs and a prepaid deposit of \$4,000, and AWH New York, LLC was going to issue a senior secured promissory note in favor of MMNY’s senior secured lender in the principal amount of \$28,000, guaranteed by AWH, which cash investment and note would be used to reduce the amounts owed to MMNY’s senior secured lender. Following its investment, AWH would hold a controlling interest in MMNY equal to approximately 86.7% of the equity in MMNY, and be provided with an option to acquire MedMen’s remaining interest in MMNY in the future for a nominal additional payment, which option the Company intended to exercise. The Investment Agreement also required AWH to make an additional investment of \$10,000 in MMNY, which investment would also be used to repay MMNY’s senior secured lender, if adult-use cannabis sales commenced in MMNY’s dispensaries.

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

Following receipt of such notice, on January 13, 2022, the Company filed a complaint against MedMen and others in the Commercial Division of the Supreme Court of the State of New York, requesting specific performance that the transactions contemplated by the Investment Agreement must move forward, and such other relief as the court may deem appropriate. On January 24, 2022, MedMen filed an answer and counterclaims against the

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Company (the “Counterclaims”). On February 14, 2022, the Company filed an amended complaint, not only seeking specific performance but also damages related to MedMen’s breaches of the Investment Agreement. On that same day, the Company also filed a motion to dismiss the Counterclaims. On March 7, 2022, MedMen filed an amended answer and counterclaims against the Company. On March 28, 2022, the Company moved to dismiss MedMen’s amended counterclaims. That motion remains pending because the litigation is currently stayed.

On May 10, 2022, the Company and MedMen signed a term sheet, pursuant to which parties agreed to use best efforts to enter into a settlement agreement and enter into new or amended transactional documents. Specifically, if consummated, the agreements contemplated by the term sheet would entail, among other things, the Company paying MedMen \$15,000 in additional transaction consideration, and MedMen withdrawing its counterclaims against the Company. Per the amended transaction terms set out in the term sheet, upon closing, the Company would receive a 99.99% controlling interest of MMNY and the Company would pay MedMen \$74,000, which reflects the original transaction consideration plus an additional \$11,000 per the parties’ term sheet. The Company already paid \$4,000 as a deposit.

The amended transaction terms set out in the term sheet also require MedMen to provide a representation and warranty that the status of the MMNY assets has not materially changed since December 31, 2021 and an acknowledgement that the representations and warranties from the Investment Agreement will survive for three months after the closing of the contemplated transactions. The Company has determined that MedMen cannot make or provide the representations and warranties it is required to as part of the contemplated transactions. Therefore, the Company no longer intends to consummate the contemplated transactions.

16. RELATED PARTY TRANSACTIONS

There were no significant related party transactions during the six months ended June 30, 2022, other than as disclosed in Note 6, “Notes Receivable.”

17. SUPPLEMENTAL INFORMATION

The following table presents supplemental information regarding our other current assets:

<i>(in thousands)</i>	June 30, 2022	December 31, 2021
Prepaid expenses	\$ 6,380	\$ 7,508
Deposits and other receivables	4,668	5,177
Construction deposits	2,580	3,263
Tenant improvement allowance	500	2,507
Other	4,066	6,376
Total	\$ 18,194	\$ 24,831

The following table presents supplemental information regarding our accounts payable and accrued liabilities:

<i>(in thousands)</i>	June 30, 2022	December 31, 2021
Accounts payable	\$ 21,892	\$ 5,536
Acquisition liabilities	16,886	—
Fixed asset purchases	8,818	15,682
Accrued payroll and related expenses	5,631	11,760
Accrued interest	504	187
Other	6,236	6,809
Litigation settlement	—	5,480
Total	\$ 59,967	\$ 45,454

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The following table presents supplemental information regarding our general and administrative expenses:

<i>(in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Compensation	\$ 15,816	\$ 13,654	\$ 30,316	\$ 23,706
Rent and utilities	6,461	4,213	11,511	9,646
Professional services	4,301	5,870	10,165	9,787
Depreciation and amortization	3,057	2,470	5,789	4,889
Insurance	1,430	1,176	2,769	2,038
Marketing	948	871	1,623	1,405
(Gain) loss on sale of assets	(72)	—	746	—
Other	1,632	2,358	3,881	4,287
Total	\$ 33,573	\$ 30,612	\$ 66,800	\$ 55,758

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events to determine if events or transactions occurring through the filing date of this Quarterly Report on Form 10-Q require adjustment to or disclosure in the Company's Financial Statements. There were no events that require adjustment to or disclosure in the Financial Statements, except as disclosed.

Acquisitions

On August 12, 2022, the Company entered into a definitive agreement (the "Ohio Agreement") that provides the Company the option to acquire 100% of the equity of Ohio Patient Access LLC ("OPA"), the holder of a license that grants it the right to operate three medical dispensaries in Ohio, which operations have not yet commenced. Under the Ohio Agreement, the Company will also acquire the real property of the three dispensary locations. Total cash consideration is \$22,300, plus an earn-out provision of up to \$7,300 that is dependent upon the commencement of adult-use cannabis sales in Ohio. The sellers may elect to receive the earn-out payment as either cash or shares of the Company's Class A common stock, or a combination thereof. If the sellers elect to receive any or all of the payment in shares, the number of shares issued will be equal to the earn-out payment amount, or portion thereof, divided by the thirty-day volume weighted average price of the Class A shares immediately preceding the date the earn-out provision is achieved. If the sellers elect to receive Class A shares for the earn-out, those shares would be issued pursuant to the exemption from registration contained in Section 4(a) (2) of the Securities Act of 1933, as amended. The Ohio Agreement is subject to regulatory review and approval. In conjunction with the Ohio Agreement, the parties also entered into a support services agreement under which the Company will provide management and advisory services to OPA for a set monthly fee. The parties also entered into a working capital loan agreement under which the Company may, at its full discretion, loan OPA up to \$10,000 for general working capital needs.

Additionally, the Company entered into definitive agreements to acquire two additional licenses in Illinois; one on August 11, 2022 for a total of \$5,500 of cash consideration, excluding transaction costs, and one on August 12, 2022 for a total of \$5,600 of cash consideration, excluding transaction costs. Neither of these licenses were associated with active operations at signing and the transfer of each license is subject to regulatory review and approval.

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

The following management discussion and analysis, which we refer to as the “MD&A”, of the financial condition and results of operations of Ascend Wellness Holdings, Inc. (the “Company,” “AWH,” or “Ascend”) is for the three and six months ended June 30, 2022 and 2021. It is supplemental to, and should be read in conjunction with, the unaudited condensed consolidated financial statements, and the accompanying notes thereto, (the “Financial Statements”) appearing elsewhere in this Quarterly Report on Form 10-Q (the “Quarterly Report” or “Form 10-Q”) and our Annual Report on Form 10-K for the year ended December 31, 2021 (the “Annual Report”), which has been filed with the United States Securities and Exchange Commission (“SEC”) and with the relevant Canadian securities regulatory authorities under its profile on the System for Electronic Document Analysis and Retrieval (“SEDAR”). The Financial Statements and Annual Report were prepared in accordance with accounting principles generally accepted in the United States of America, which we refer to as “GAAP.”

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Financial Statements. In addition to historical information, the discussion in this section contains forward-looking statements and forward-looking information (collectively, “forward-looking information”) that involve risks and uncertainties. Generally, forward-looking information may be identified by the use of forward-looking terminology such as “plans,” “expects,” “does not expect,” “proposed,” “is expected,” “budgets,” “scheduled,” “estimates,” “forecasts,” “intends,” “anticipates,” “does not anticipate,” “believes,” or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events, or results may, could, would, or might occur or be achieved. There can be no assurance that such forward-looking information will prove to be accurate, and actual results and future events could differ materially from those anticipated in such forward-looking information. Forward-looking information is subject to known and unknown risks, uncertainties, and other factors that may cause the actual results, level of activity, performance, or achievements of the Company to be materially different from those or implied by such forward-looking information. See “Forward-Looking Statements” for more information. Readers are further cautioned not to place undue reliance on forward-looking information as there can be no assurance that the plans, intentions, or expectations upon which they are placed will occur. Forward-looking information in this MD&A is expressly qualified by this cautionary statement.

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

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

BUSINESS OVERVIEW

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

The Company was originally formed on May 15, 2018 as Ascend Group Partners, LLC, and changed its name to “Ascend Wellness Holdings, LLC” on September 10, 2018. On April 22, 2021, Ascend Wellness Holdings, LLC converted into a Delaware corporation and changed its name to “Ascend Wellness Holdings, Inc.” and effected

a 2-for-1 reverse stock split (the “Reverse Split”), which is retrospectively presented for all periods in this filing. We refer to this conversion throughout this filing as the “Conversion.” As a result of the Conversion, the members of Ascend Wellness Holdings, LLC became holders of shares of stock of Ascend Wellness Holdings, Inc.

In May 2021, the Company completed an Initial Public Offering (“IPO”) of its Class A common stock, in which it issued and sold a total of 11,500 shares of Class A common stock, including the underwriters’ over-allotment option, at a price of \$8.00 per share with net proceeds of approximately \$86,065, after deducting underwriting discounts and commissions and certain expenses paid by us. In connection with the IPO, the historical common units, Series Seed Preferred Units, Series Seed+ Preferred Units, and Real Estate Preferred Units then-outstanding automatically converted into a total of 113,301 shares of Class A common stock and 65 historical common units were allocated as shares of Class B common stock. Additionally, 3,420 shares of Class A common stock were issued for a beneficial conversion feature associated with the conversion of certain historical preferred units and the Company’s convertible notes, plus accrued interest, converted into 37,388 shares of Class A Common Stock. See Note 12, “Stockholders’ Equity,” in the Financial Statements for additional details.

Since our formation, we have expanded our operational footprint, primarily through acquisitions, and currently have direct or indirect operations or financial interests in six United States geographic markets: Illinois, Michigan, Ohio, Massachusetts, New Jersey, and Pennsylvania. We currently employ approximately 1,800 people.

We are committed to being vertically integrated in every state we operate in, which entails controlling the entire supply chain from seed to sale. We are currently vertically integrated in five out of the six states in which we operate with expansion plans underway to achieve vertical integration in all six states. While we have been successful in opening facilities and dispensaries, we expect continued growth to be driven by opening new operational facilities and dispensaries under our current licenses, expansion of our current facilities, and increased consumer demand.

Our consumer products portfolio is generated primarily from plant material that we grow and process ourselves. As of June 30, 2022, we produce our consumer packaged goods in five manufacturing facilities with 213,000 square feet of current operational canopy and total current capacity of approximately 107,000 pounds annually. We are undergoing expansions that we hope to complete by the end of 2022, which will increase our cumulative canopy to approximately 244,000 square feet with an estimated total annual production capacity of approximately 122,000 pounds post build-out. As of June 30, 2022, our product portfolio consists of 387 stock keeping units (“SKUs”), across a range of cannabis product categories, including flower, pre-rolls, concentrates, vapes, edibles, and other cannabis-related products. As of June 30, 2022, we have 21 open and operating retail locations with expectations to have 22 retail locations by the end of 2022. Our new store opening plans are flexible and will ultimately depend on market conditions, local licensing, construction, and other regulatory permissions. All of our expansion plans are subject to capital allocations decisions, the evolving regulatory environment, and the COVID-19 pandemic.

Recent Developments

Business Developments

AWH continues to make meaningful progress and continue its development during 2022. During and subsequent to the quarter, we:

- entered the Pennsylvania market in April 2022 by acquiring Story of PA CR, LLC (“Story of PA”), as further described below, and subsequently began construction at the cultivation facility;
- commenced adult-use sales at our Rochelle Park, New Jersey dispensary in April, added 4,000 square feet of canopy at our Franklin, New Jersey cultivation facility in July, and opened our Fort Lee, New Jersey dispensary in August;
- opened one new dispensary in East Lansing, Michigan; and
- further strengthened our balance sheet with \$65,000 of additional senior debt financing under our credit facility, as described in “*Liquidity and Capital Resources.*”

Acquisition of Story of PA

On April 19, 2022, we acquired Story of PA. Total consideration for the acquisition of the outstanding equity interests in Story of PA was \$53,127, consisting of 12,900 shares of Class A common stock with a fair value of \$42,957 and cash consideration of \$10,170. Story of PA received a clinical registrant permit from the Pennsylvania Department of Health on March 1, 2022. Through a research collaboration agreement with the Geisinger Commonwealth School of Medicine (“Geisinger”), a Pennsylvania Department of Health-Certified Medical Marijuana Academic Clinical Research Center, we intend to open a cultivation and processing facility and up to six medical dispensaries throughout the Commonwealth of Pennsylvania. We will help fund clinical research to benefit the patients of Pennsylvania by contributing \$30,000 to Geisinger over the next two years (of which \$15,000 was funded in April 2022), and up to an additional \$10,000 over the next ten years.

The transaction was accounted for as an asset acquisition and the total acquisition cost of \$100,203 was allocated to the license intangible asset acquired. The total acquisition cost includes the consideration transferred for the equity interests in Story of PA, the research funding commitment, other liabilities assumed in the transaction, and certain transaction costs. Refer to Note 4, “Acquisitions,” in the Financial Statements for additional information.

Through this transaction, AWH entered its sixth market in the United States. Retail and wholesale operations have not yet commenced and are subject to certain regulatory approvals. The Company remains focused on the building out the cultivation site and the first two retail stores that it expects to open during 2023.

Operational and Regulation Overview

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

COVID-19 Pandemic

There continues to be uncertainty around the COVID-19 pandemic (the “Pandemic”). The full impact of the Pandemic on our business will depend on factors such as the length of time of the Pandemic; government response at the federal, state, and local levels along with recommended actions from health authorities; the impact of new variants that may emerge; the longer-term impact of the Pandemic on the economy and consumer behavior; and the effect on our customers, employees, vendors, and other partners.

We continue to implement and evaluate actions to strengthen our financial position and support the continuity of our business and operations in the face of this Pandemic and other events. Although our operations have not been materially affected to date, the ultimate severity of the Pandemic and its impact on the economic environment remains uncertain. We continue to generate operating cash flows to meet our short-term liquidity needs.

While the Pandemic has not had a material impact on our results of operations to date, given the uncertainties associated with the Pandemic, we are unable to estimate the future impact of the Pandemic on our business, financial condition, results of operations, and/or cash flows in future periods. We believe we have sufficient liquidity available from cash and cash equivalents on hand of \$140,551 as of June 30, 2022 to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and pay scheduled interest payments on debt. Refer to “*Liquidity and Capital Resources*” for additional information.

Key Financial Highlights

- Revenue increased by \$14,132, or 17%, during Q2 2022, as compared to Q2 2021, primarily driven by new site openings, including the commencement of adult-use sales at one of our New Jersey dispensaries, as well as growth from our existing business and acquisitions.
- Operating loss of \$605 during Q2 2022, as compared to operating profit of \$3,904 during Q2 2021, primarily due to lower gross profit margin.
- Net decrease in cash and cash equivalents of \$14,930 during the six months ended June 30, 2022, primarily driven by net cash used in investing activities, including payments related to acquisitions, and net cash used to support working capital needs and operating activities, partially offset by proceeds received under our credit facility.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2022 Compared with the Three Months Ended June 30, 2021

(\$ in thousands)	Three Months Ended June 30,		Increase / (Decrease)	
	2022	2021		
Revenue, net	\$ 97,499	\$ 83,367	\$ 14,132	17%
Cost of goods sold	(64,531)	(48,851)	15,680	32%
Gross profit	32,968	34,516	(1,548)	(4)%
Gross profit %	33.8 %	41.4 %		
Operating expenses				
General and administrative expenses	33,573	30,612	2,961	10%
Operating (loss) profit	(605)	3,904	(4,509)	(115)%
Other (expense) income				
Interest expense	(9,246)	(36,888)	(27,642)	(75)%
Other, net	151	82	69	84%
Total other expense	(9,095)	(36,806)	(27,711)	(75)%
Loss before income taxes	(9,700)	(32,902)	(23,202)	(71)%
Income tax expense	(11,472)	(11,995)	(523)	(4)%
Net loss	\$ (21,172)	\$ (44,897)	\$ (23,725)	(53)%

Revenue

Revenue increased by \$14,132, or 17%, during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021. New dispensaries opened during 2021 contributed \$14,417 to our revenue growth, which includes the benefit of the commencement of adult-use sales at one of our New Jersey dispensaries that began in April 2022. We recognized incremental revenue from acquisitions of \$3,534, which includes \$303 related to the Ohio cultivation site acquired during the second quarter of 2021. Revenue across our legacy locations was relatively flat. The current period also benefited from an increase in wholesale volume sold, but was partially offset by pricing pressure across the markets in which we operate resulting in a decrease of \$3,689 in net revenue related to our wholesale operations. As of June 30, 2022, we had 387 SKUs for our cultivation products, compared to 121 SKUs as of June 30, 2021.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by \$15,680, or 32%, during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021. Cost of goods sold represents direct and indirect expenses attributable to the production of wholesale products as well as direct expenses incurred in purchasing products from other wholesalers. The increase in cost of goods sold in the three months ended June 30, 2022 was driven by expansion of our operations, including \$2,946 of incremental costs from acquisitions. Gross profit for the three months ended June 30, 2022 was \$32,968, representing a gross margin of 33.8%, compared to gross profit of \$34,516 and gross margin of 41.4% for the three months ended June 30, 2021. The decrease in gross margin was primarily driven by lower margins in our wholesale operations due to pricing pressure, a shift in product mix, and higher production expenses at certain cultivation facilities as staffing increased ahead of canopy expansions.

General and Administrative Expenses

General and administrative expenses increased by \$2,961, or 10%, during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021. The increase was primarily related to:

- a \$2,248 increase in rent and utilities to support the expansion of our operations;
- a \$2,162 increase in compensation expense resulting from an increase in headcount from approximately 1,200 as of June 30, 2021 to approximately 1,800 as of June 30, 2022 to support our expanded operations and higher equity-based compensation expense; and
- a \$587 increase in depreciation and amortization expense due to \$401 of incremental depreciation expense due to a larger average balance of fixed assets in service and \$186 of incremental amortization of licenses.

These increases were partially offset by a \$1,569 decrease in professional services, driven by the absence of a \$2,000 termination fee associated with a management services agreement (“MSA”) that was incurred in the prior year following our IPO.

Interest Expense

Interest expense decreased by \$27,642, or 75%, during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021. The decrease was primarily due to the absence of \$30,967 of non-cash interest expense that we incurred in the prior year related to our IPO, partially offset by \$2,180 of non-cash interest expense associated with additional borrowings under our credit facility (refer to “*Liquidity and Capital Resources*” for further information). During the three months ended June 30, 2022, the Company had a weighted-average outstanding debt balance of \$259,219 with a weighted-average interest rate of 9.6%, compared to a weighted-average debt balance of \$176,317 during three months ended June 30, 2021 with a weighted-average interest rate of 11.0%.

Income Tax Expense

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

Since the Company operates in the cannabis industry, it is subject to the limitations of Internal Revenue Code (“IRC”) Section 280E, which prohibits businesses engaged in the trafficking of Schedule I or Schedule II controlled substances from deducting ordinary and necessary business expenses from gross profit. Cannabis businesses operating in states that align their tax codes with IRC Section 280E are also unable to deduct ordinary and necessary business expenses for state tax purposes. Ordinary and necessary business expenses deemed non-deductible under IRC Section 280E are treated as permanent book-to-tax differences. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

The statutory federal tax rate was 21% during both periods. During the three months ended June 30, 2022 the Company had operations in six U.S. geographic markets: Illinois, Michigan, Ohio, Massachusetts, New Jersey, and Pennsylvania, which have state tax rates ranging from 6% to 11.5%. Certain states, including Michigan, do not align with IRC Section 280E for state tax purposes and permit the deduction of ordinary and necessary business expenses from gross profit in the calculation of state taxable income. There have been no material changes to income tax matters in connection with the normal course of operations during the current year.

Income tax expense was \$11,472, or 34.8% of gross profit, during the three months ended June 30, 2022, as compared to \$11,995, or 34.8% of gross profit, during the three months ended June 30, 2021. The effective tax rate on gross profit for the three months ended June 30, 2022 benefited from higher relative cost of goods sold, but was offset by higher penalties and interest due on federal tax payments in the current year as compared to the prior year.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared with the Six Months Ended June 30, 2021

(\$ in thousands)	Six Months Ended June 30,		Increase / (Decrease)	
	2022	2021		
Revenue, net	\$ 182,589	\$ 149,504	\$ 33,085	22%
Cost of goods sold	(126,174)	(85,321)	40,853	48%
Gross profit	56,415	64,183	(7,768)	(12)%
Gross profit %	30.9 %	42.9 %		
Operating expenses				
General and administrative expenses	66,800	55,758	11,042	20%
Settlement expense	5,000	36,511	(31,511)	(86)%
Total operating expenses	71,800	92,269	(20,469)	(22)%
Operating loss	(15,385)	(28,086)	(12,701)	(45)%
Other (expense) income				
Interest expense	(15,277)	(44,225)	(28,948)	(65)%
Other, net	254	162	92	57%
Total other expense	(15,023)	(44,063)	(29,040)	(66)%
Loss before income taxes	(30,408)	(72,149)	(41,741)	(58)%
Income tax expense	(18,579)	(20,971)	(2,392)	(11)%
Net loss	\$ (48,987)	\$ (93,120)	\$ (44,133)	(47)%

Revenue

Revenue increased by \$33,085, or 22%, during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. New dispensaries opened during 2021 contributed \$21,026 to our revenue growth, which includes the benefit of the commencement of adult-use sales at one of our New Jersey dispensaries that began in April 2022. Revenue from our legacy locations increased by \$7,877 and we recognized incremental revenue from acquisitions of \$6,831, which includes \$447 related to the Ohio cultivation site that we acquired during the second quarter of 2021. Additionally, the current period benefited from an increase in wholesale volume sold, but was partially offset by pricing pressure across the markets in which we operate resulting in a decrease of \$2,649 in net revenue related to our wholesale operations. As of June 30, 2022, we had 387 SKUs for our cultivation products, compared to 121 SKUs as of June 30, 2021.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by \$40,853, or 48%, during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. Cost of goods sold represents direct and indirect expenses attributable to the production of wholesale products as well as direct expenses incurred in purchasing products from other wholesalers. The increase in cost of goods sold in the six months ended June 30, 2022 was driven by expansion of our operations, including \$5,059 of incremental costs from acquisitions. Gross profit for the six months ended June 30, 2022 was \$56,415, representing a gross margin of 30.9%, compared to gross profit of \$64,183 and gross margin of 42.9% for the six months ended June 30, 2021. The decrease in gross margin was primarily driven by lower margins at our Massachusetts and Illinois cultivation facilities as staffing increased ahead of canopy expansions which resulted in higher production expenses, as well as pricing pressure across the markets in which we operate and a shift in product mix.

General and Administrative Expenses

General and administrative expenses increased by \$11,042, or 20%, during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. The increase was primarily related to:

- a \$6,610 increase in compensation expense resulting from an increase in headcount from approximately 1,200 as of June 30, 2021 to approximately 1,800 as of June 30, 2022 to support our expanded operations and higher equity-based compensation expense;
- a \$1,865 increase in rent and utilities to support the expansion of our operations;
- a \$900 increase in depreciation and amortization expense due to \$575 of incremental depreciation expense due to a larger average balance of fixed assets in service and \$325 of incremental amortization of licenses;
- a \$746 higher loss on sale of assets; and
- a \$378 increase in professional services, driven by higher legal expenses for ongoing litigation matters incurred during the first quarter of the current year, partially offset by the absence of a \$2,000 termination fee associated with an MSA that was incurred in the prior year following our IPO.

Settlement Expense

During the six months ended June 30, 2022, we recognized an expense of \$5,000 related to the settlement of a stockholder dispute (refer to “*Management’s Discussion and Analysis of Financial Condition and Results of Operations–Legal Matters–Stockholder Dispute*” for additional information). During the six months ended June 30, 2021, we recognized a settlement expense of \$36,511 for a matter related to two property purchase agreements.

Interest Expense

Interest expense decreased by \$28,948, or 65%, during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. The decrease was primarily due to the absence of \$30,967 of non-cash interest expense that we incurred in the prior year related to our IPO, partially offset by \$2,180 of non-cash interest expense associated with additional borrowings under our credit facility (refer to “*Liquidity and Capital Resources*” for further information). During the six months ended June 30, 2022, the Company had a weighted-average outstanding debt balance of \$250,224 with a weighted-average interest rate of 9.6%, compared to a weighted-average debt balance of \$214,561 during six months ended June 30, 2021 with a weighted-average interest rate of 11.0%.

Income Tax Expense

Income tax expense was \$18,579, or 32.9% of gross profit, during the six months ended June 30, 2022, as compared to \$20,971, or 32.7% of gross profit, during the six months ended June 30, 2021. The effective tax rate on gross profit for the six months ended June 30, 2022 was impacted by higher penalties and interest due on federal tax payments in the current year as compared to the prior year, partially offset by a benefit from higher relative cost of goods sold.

NON-GAAP FINANCIAL MEASURES

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

The following table presents Adjusted Gross Profit for the three and six months ended June 30, 2022 and 2021:

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Gross Profit	\$ 32,968	\$ 34,516	\$ 56,415	\$ 64,183
Depreciation and amortization included in cost of goods sold	3,953	2,387	6,896	4,549
Equity-based compensation included in cost of goods sold	3,167	—	7,162	—
Start-up costs included in cost of goods sold ⁽¹⁾	4,248	—	8,171	—
Non-cash inventory adjustments ⁽²⁾	112	2,714	2,316	3,464
Adjusted Gross Profit	\$ 44,448	\$ 39,617	\$ 80,960	\$ 72,196
<i>Adjusted Gross Margin</i>	<i>45.6 %</i>	<i>47.5 %</i>	<i>44.3 %</i>	<i>48.3 %</i>

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

⁽²⁾ Primarily consists of write-offs of expired products and obsolete packaging.

The following table presents Adjusted EBITDA for the three and six months ended June 30, 2022 and 2021:

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net loss	\$ (21,172)	\$ (44,897)	\$ (48,987)	\$ (93,120)
Income tax expense	11,472	11,995	18,579	20,971
Other (income) expense	(151)	(82)	(254)	(162)
Interest expense	9,246	36,888	15,277	44,225
Depreciation and amortization	7,010	4,857	12,685	9,438
Non-cash inventory adjustments ⁽¹⁾	112	2,714	2,316	3,464
Equity-based compensation	7,055	1,711	13,554	4,198
Start-up costs ⁽²⁾	1,116	1,716	1,953	3,027
Start-up costs included in cost of goods sold ⁽³⁾	4,248	—	8,171	—
Transaction-related and other non-recurring expenses ⁽⁴⁾	2,027	5,406	8,221	7,584
(Gain) loss on sale of assets	(72)	—	746	—
Litigation settlement	—	—	5,000	36,511
Adjusted EBITDA	\$ 20,891	\$ 20,308	\$ 37,261	\$ 36,136
<i>Adjusted EBITDA Margin</i>	<i>21.4 %</i>	<i>24.4 %</i>	<i>20.4 %</i>	<i>24.2 %</i>

⁽¹⁾ Primarily consists of write-offs of expired products and obsolete packaging.

⁽²⁾ One-time costs associated with acquiring real estate, obtaining licenses and permits, and other costs incurred before commencement of operations at certain locations.

⁽³⁾ Incremental expenses associated with the expansion of activities at our cultivation facilities that are not yet operating at scale, including excess overhead expenses resulting from delays in regulatory approvals at certain cultivation facilities.

⁽⁴⁾ Legal and professional fees associated with litigation matters, potential acquisitions, and other regulatory matters and other non-recurring expenses. The prior year includes expenses related to the Company's IPO.

LIQUIDITY AND CAPITAL RESOURCES

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

Financing History and Future Capital Requirements

Historically, we have used private financing as a source of liquidity for short-term working capital needs and general corporate purposes. In May 2021, we completed an IPO of shares of our Class A common stock through which we raised aggregate net proceeds of approximately \$86,065, after deducting underwriting discounts and commissions and certain direct offering expenses paid by us, and in August 2021 we entered into a credit facility under which we initially borrowed a \$210,000 term loan. During the second quarter of 2022, we borrowed an additional \$65,000 of term loans from certain lenders under the expansion feature of the credit facility, as further described below.

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

As of June 30, 2022 and December 31, 2021, we had total current liabilities of \$122,044 and \$117,395, respectively, and total current assets of \$259,950 and \$258,012, respectively, which includes cash and cash equivalents of \$140,551 and \$155,481, respectively, to meet our current obligations. As of June 30, 2022, we had working capital of \$137,906, compared to \$140,617 as of December 31, 2021.

Approximately 97% of our cash and cash equivalents balance as of June 30, 2022 and December 31, 2021 is on deposit with banks, credit unions, or other financial institutions. We have not experienced any material impacts related to banking restrictions applicable to cannabis businesses. Our cash and cash equivalents balance is not restricted for use by variable interest entities.

As reflected in the Financial Statements, we had an accumulated deficit as of June 30, 2022 and December 31, 2021, as well as a net loss for the three and six months ended June 30, 2022 and 2021, and negative cash flows from operating activities during the six months ended June 30, 2022 and 2021, which are indicators that raise substantial doubt of our ability to continue as a going concern. Management believes that substantial doubt of our ability to continue as a going concern for at least one year from the issuance of our Financial Statements has been alleviated due to: (i) cash on hand and (ii) continued growth of sales from our consolidated operations. Management plans to continue to access capital markets for additional funding through debt and/or equity financings to supplement future cash needs, as may be required. However, management cannot provide any assurances that the Company will be successful in accomplishing its business plans. If we are unable to raise additional capital on favorable terms, if at all, whenever necessary, we may be forced to decelerate or curtail certain of our operations until such time as additional capital becomes available.

Credit Facility

In August 2021, we entered into a credit facility (the "2021 Credit Facility") which provided for an initial term loan of \$210,000. We had the ability to request an increase in the 2021 Credit Facility up to \$275,000 if the existing lenders (or other lenders) agreed to provide such additional term loans. During the second quarter of 2022, we borrowed an additional \$65,000 of incremental term loans through this expansion feature (the "2022 Loans") for total borrowings of \$275,000 outstanding as of June 30, 2022. The 2021 Credit Facility matures on August 27, 2025 and does not require scheduled principal amortization payments. Borrowings under the 2021 Credit Facility bear interest at a rate of 9.5% per annum, payable quarterly. The initial proceeds from the 2021 Credit Facility were used, in part, to prepay certain then-outstanding debt obligations and, together with the 2022 Loans, fund working capital

and general corporate matters, including, but not limited to, growth investments, acquisitions, capital expenditures, and other strategic initiatives.

We incurred additional financing costs of \$7,594 related to the 2022 Loans, which includes warrants issued to certain lenders to acquire 3,130 shares of Class A common stock that had a fair value of \$2,639 at issuance (refer to Note 12, "Stockholders' Equity," in the Financial Statements for additional information). The financing costs are being amortized to interest expense over the term of 2021 Credit Facility using the straight-line method which approximates the interest rate method. The 2022 Loans were funded by a combination of new and existing lenders. Borrowings from the existing lenders were accounted for as a modification of existing debt, with the exception of one lender that was considered an extinguishment. We recognized a loss on extinguishment of \$2,180 as a component of interest expense during the three and six months ended June 30, 2022, comprised of the write-off of \$337 related to the lender's initial term loan and \$1,843 related to the lender's new loan, which included the estimated fair value of the warrants issued to the lender.

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

We are required to comply with two financial covenants under the 2021 Credit Agreement. Liquidity (defined as unrestricted cash and cash equivalents pledged under the 2021 Credit Facility plus any future revolving credit availability) may not be below \$20,000 as of the last day of any fiscal quarter, and we may not permit the ratio of Consolidated EBITDA (as defined in the 2021 Credit Agreement) to consolidated cash interest expense for any period of four consecutive fiscal quarters to be less than 2.50:1.00 for the period ending June 30, 2022 and thereafter. The Company has a customary equity cure right for each of these financial covenants. The Company is in compliance with these covenants as of June 30, 2022. Refer to Note 11, "Debt," in the Financial Statements for additional information.

Cash Flows

<i>(in thousands)</i>	Six Months Ended June 30,	
	2022	2021
Net cash used in operating activities	\$ (20,505)	\$ (12,055)
Net cash used in investing activities	(48,342)	(71,168)
Net cash provided by financing activities	53,917	129,338

Operating Activities

Net cash used in operating activities increased by \$8,450 during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. The increase was primarily driven by the timing of payments to suppliers and vendors, the timing and amount of income tax payments, and the timing of other working capital payments.

Investing Activities

Net cash used in investing activities decreased by \$22,826 during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. The decrease was primarily due to proceeds received from the sale of assets and lower cash investments in capital assets, partially offset by higher repayments of sellers' notes related to prior year acquisitions and cash paid for the purchase of intangible assets, including the first \$15,000 payment made under the Story of PA research collaboration agreement.

Financing Activities

Net cash provided by financing activities decreased by \$75,421 during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. The decrease was primarily due to the absence of net proceeds received from our IPO in the prior year, as well as the payment of taxes withheld under equity-based compensation plans and debt issuance costs in the current year, all partially offset by higher proceeds from the issuance of debt in the current year.

Contractual Obligations and Other Commitments and Contingencies

Material contractual obligations arising in the normal course of business primarily consist of long-term fixed rate debt and related interest payments, sellers' notes, finance arrangements, and operating leases. We believe that cash flows from operations will be sufficient to satisfy our capital expenditures, debt services, working capital needs, and other contractual obligations for the next twelve months.

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

(in thousands)

Contractual Obligations	Commitments Due by Period				
	Total	Remainder of 2022	2023 - 2024	2025 - 2026	Thereafter
Term notes ⁽¹⁾	\$ 275,000	\$ —	\$ —	\$ 275,000	\$ —
Fixed interest related to term notes ⁽²⁾	82,526	13,170	52,250	17,106	—
Sellers' Notes ⁽³⁾	12,831	1,688	11,143	—	—
Finance arrangements ⁽⁴⁾	16,819	1,050	4,349	4,609	6,811
Operating leases ⁽⁵⁾	631,338	16,260	67,958	71,440	475,680
Property purchases ⁽⁶⁾	25,500	25,500	—	—	—
Other commitments ⁽⁷⁾	16,886	472	16,414	—	—
Total	\$ 1,060,900	\$ 58,140	\$ 152,114	\$ 368,155	\$ 482,491

(1) Principal payments due under our term notes payable. Refer to Note 11, "Debt", in the Financial Statements for additional information.

(2) Represents fixed interest rate payments on borrowings under the 2021 Credit Facility based on the principal outstanding at June 30, 2022. Interest payments could fluctuate based on prepayments or additional amounts borrowed.

(3) Consists of amounts owed for acquisitions or other purchases. Certain cash payments include an interest accretion component. Refer to Note 11, "Debt", in the Financial Statements for additional information.

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

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

(6) As of June 30, 2022, we entered into agreements to purchase one property in New York and one property in Pennsylvania for a combined total purchase price of \$25,500, subject to closing adjustments. In August 2022, the Company decided it no longer intends to consummate the purchase of the New York property. The closing of the Pennsylvania property is expected during 2022, but is dependent on certain conditions, including inspection.

(7) Related to the Story of PA acquisition. Refer to Note 4, "Acquisitions," in the Financial Statements for additional information. We expect to fund up to an additional \$10,000 over the next ten years under the research collaboration agreement. Since the timing of the payments may vary, this amount has been excluded from the table above.

Additionally, in conjunction with the OCC acquisition (see Note 4, "Acquisitions," in the Financial Statements) in December 2021, the Company entered into a supply agreement with a producer and supplier of medical marijuana products in Ohio (the "Ohio Supply Agreement") with an initial expiration date of August 2028. Under the Ohio Supply Agreement, the Company will purchase products from the supplier that results in 7.5% of the

Company's monthly gross sales of all products in our Ohio dispensaries for the first five years, and 5% for the remaining term. The Company can establish the selling price of the products and the purchases are made at the lowest then-prevailing wholesale market price of products sold by the supplier to other dispensaries in Ohio. Such purchases have been excluded from the table above, as purchases are variable based on gross sales of the respective dispensary.

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

Capital Expenditures

We anticipate capital expenditures, net of tenant improvement allowances, of approximately \$33,000 during the remainder of 2022. Changes to this estimate could result from the timing of various project start dates, which are subject to local and regulatory approvals. Spending at our cultivation and processing facilities includes: construction; purchase of capital equipment such as extraction equipment, heating, ventilation, and air conditioning equipment, and other manufacturing equipment; general maintenance; and information technology capital expenditures. Dispensary-related capital expenditures includes construction costs for the initial build-out of each location, general maintenance costs, and upgrades to existing locations.

During the remainder of 2022, we expect to complete certain projects at our cultivation facilities in Athol, Massachusetts and Barry, Illinois and a second phase of expansion at our Franklin, New Jersey cultivation facility. We also anticipate the completion and opening of dispensaries in Fort Lee, New Jersey and New Bedford, Massachusetts. Total anticipated capital expenditures also includes estimated costs to build-out our Pennsylvania operations. Management expects to fund capital expenditures by utilizing cash flows from operations and reimbursements under tenant improvement allowances from sale leaseback transactions.

As of June 30, 2022, our construction in progress ("CIP") balance was \$19,867 and relates to capital spending on projects that were not yet complete. This balance includes: \$4,942 related to the expansion of our New Jersey cultivation facility; \$2,152 related to certain projects at our Illinois cultivation facility; \$617 related to the kitchen and lab expansion at our Massachusetts cultivation facility, and \$12,156 related to other projects, primarily the build-out of dispensaries that were not yet open as of June 30, 2022.

Other Matters

Equity Incentive Plans

As of June 30, 2022, a total of 9,994 restricted common shares had been issued under the equity incentive plan approved in 2020 (the "2020 Plan"), of which 775 were unvested as of June 30, 2022. Total unrecognized compensation cost related to the restricted common shares was \$157 as of June 30, 2022, which is expected to be recognized over the weighted-average remaining vesting period of 0.4 years.

In July 2021, the Company adopted a new stock incentive plan (the "2021 Plan"), pursuant to which 17,000 shares of Class A common stock are reserved for issuance thereunder, subject to certain adjustments and other terms. Following the adoption of the 2021 Plan, no additional awards are expected to be issued under the 2020 Plan. The 2021 Plan authorized the issuance of options, stock appreciation rights, restricted stock awards, restricted stock units ("RSUs"), and other stock-based awards (collectively the "2021 Plan Awards"). As of June 30, 2022, there were 6,920 shares of Class A common stock available for grant for future equity-based compensation awards under the 2021 Plan.

During the six months ended June 30, 2022, the Company granted a total of 3,259 RSUs under the 2021 Plan. As of June 30, 2022, a total of 9,689 RSUs have been granted under the 2021 Plan, of which 5,418 are unvested as of June 30, 2022. Total unrecognized compensation cost related to the RSUs was \$45,094 as of June 30, 2022, which is expected to be recognized over the weighted-average remaining vesting period of 1.8 years. Additionally, during the six months ended June 30, 2022 the Company granted a total of 1,331 options under the

2021 Plan, of which 1,205 are outstanding as of June 30, 2022 and none of which are exercisable. The outstanding options have a remaining weighted-average contractual life of 4.7 years as of June 30, 2022, and total unrecognized stock-based compensation expense related to unvested options was \$2,196, which is expected to be recognized over a weighted-average remaining vesting period of 2.2 years.

Total equity-based compensation expense was \$5,915 and \$1,711 during the three months ended June 30, 2022 and 2021, respectively, and \$11,630 and \$4,198 during the six months ended June 30, 2022 and 2021, respectively. Of the total equity-based compensation expense, \$2,027 and \$5,238 was capitalized to inventory during the three and six months ended June 30, 2022, respectively, and \$2,890 and \$4,814 remains capitalized as of June 30, 2022 and December 31, 2021, respectively. No equity-based compensation expense was capitalized during the three and six months ended June 30, 2021. During the three and six months ended June 30, 2022 we recognized \$3,888 and \$6,392, respectively, within "General and administrative expenses" and \$3,167 and \$7,162, respectively, within "Costs of goods sold" on the unaudited Condensed Consolidated Statements of Operations in the Financial Statements. During the three and six months ended June 30, 2021 we recognized \$1,711 and \$4,198, respectively, within "General and administrative expenses" and none within "Cost of goods sold" on the unaudited Condensed Consolidated Statements of Operations in the Financial Statements. Refer to Note 13, "Equity-Based Compensation Expense," in the Financial Statements for additional information.

In July 2021, the Company adopted an employee stock purchase plan (the "2021 ESPP"), pursuant to which 4,000 shares of Class A common stock are reserved for issuance thereunder, subject to certain adjustments and other terms. As of June 30, 2022, no shares have been issued under the 2021 ESPP.

Sale Leaseback Transactions

On June 29, 2021, a wholly owned subsidiary of the Company entered into a definitive agreement for the sale of certain real estate and related assets of a commercial property located in New Bedford, Massachusetts to a third-party for a total purchase price is \$350, subject to certain adjustments, which remains pending. The closing is subject to certain conditions, including entering into an operating lease with the third-party. The Company anticipates this transaction will be accounted for either a sale leaseback transaction or a finance liability, depending on the final lease terms.

In February 2022, the Company sold and subsequently leased back one of its capital assets in New Jersey for total proceeds of \$35,400, excluding transaction costs. The transaction met the criteria for sale leaseback treatment. The lease was recorded as an operating lease and resulted in a lease liability of \$33,707 and an ROU asset of \$29,107, which was recorded net of a \$4,600 tenant improvement allowance.

In June 2022, the Company sold and subsequently leased back two of its capital assets in Pennsylvania for total proceeds of \$3,825, excluding transaction costs. Each transaction met the criteria for sale leaseback treatment. The leases were recorded as operating leases and resulted in a total lease liability and ROU asset of \$2,102. Each of the lease agreements provide for a capital expenditure allowance of up to \$3,000. The rent payments due under each lease will increase by a percentage of the capital expenditure allowance as funding occurs, and, therefore, each lease will be reassessed and remeasured as a modification upon such funding. As of June 30, 2022, no amounts were funded under the capital expenditure allowance for either lease.

Related Party Transaction

In May 2022 the Company issued a secured promissory note to a retail dispensary license holder in Massachusetts providing up to \$3,500 of funding (the "Massachusetts Note"), of which none is outstanding as of June 30, 2022. The Massachusetts Note accrues interest at a fixed annual rate of 11.5%. Following the opening of the borrower's retail dispensary, the principal amount is due monthly through the maturity date of May 25, 2026. The borrower may prepay the outstanding principal amount, plus accrued interest thereon. Borrowings under the Massachusetts Note are secured by the assets of the borrower. The borrower is partially owned by an entity that is managed, in part, by one of the founders of the Company.

Legal Matters

Stockholder Dispute

On May 28, 2021, Senvest Management, LLC, Hadron Capital (Cayman) LTD., and Measure8 Venture Partners, LLC (collectively, the “Claimants”), as former holders of convertible notes issued and sold by the Company (the “AWH Convertible Promissory Notes”) pursuant to the Company’s Convertible Note Purchase Agreement, dated as of June 12, 2019 (the “2019 Convertible Note Purchase Agreement”), filed an arbitration demand, which was subsequently amended on July 28, 2021 (the “Arbitration Demand”), against the Company and its Chief Executive Officer, Abner Kurtin, before the American Arbitration Association. In their Arbitration Demand, the Claimants take issue with the April 22, 2021 amendment of the terms of the 2019 Convertible Note Purchase Agreement (the “Amended Notes Consent”), which was approved by holders of approximately 66% of the principal amount of the AWH Convertible Promissory Notes, in excess of the simple majority required to amend the AWH Convertible Promissory Notes. The Amended Notes Consent set the conversion price of the AWH Convertible Promissory Notes at \$2.96 per share. The Claimants alleged that the Amended Notes Consent was obtained improperly and is void. The Company disputed the Claimants’ allegations and contended that the Amended Notes Consent was properly obtained in accordance with the terms of the AWH Convertible Promissory Notes and 2019 Convertible Note Purchase Agreement and the Amended Notes Consent was binding on all holders of the AWH Convertible Promissory Notes.

The Company, Mr. Kurtin, and the Claimants entered into a settlement agreement, dated April 29, 2022, whereby the Company agreed to pay the Claimants a total of \$5,000. This amount is reflected in the Financial Statements within “Settlement expense” on the unaudited Condensed Consolidated Statements of Operations for the six months ended June 30, 2022 and was paid in May 2022.

MedMen NY Litigation

On February 25, 2021, the Company entered into a definitive investment agreement (the “Investment Agreement”) with subsidiaries of MedMen Enterprises Inc. (“MedMen”), under which we would have, subject to regulatory approval, completed an investment (the “Investment”) of approximately \$73,000 in MedMenNY, Inc. (“MMNY”), a licensed medical cannabis operator in the State of New York. Following the completion of the transactions contemplated by the Investment Agreement, we were expected to hold all the outstanding equity of MMNY. Specifically, the Investment Agreement provided that at closing, the Company was going to pay to MedMen’s senior lenders \$35,000, less certain transaction costs and a prepaid deposit of \$4,000, and AWH New York, LLC was going to issue a senior secured promissory note in favor of MMNY’s senior secured lender in the principal amount of \$28,000, guaranteed by AWH, which cash investment and note would be used to reduce the amounts owed to MMNY’s senior secured lender. Following its investment, AWH would hold a controlling interest in MMNY equal to approximately 86.7% of the equity in MMNY, and be provided with an option to acquire MedMen’s remaining interest in MMNY in the future for a nominal additional payment, which option the Company intended to exercise. The Investment Agreement also required AWH to make an additional investment of \$10,000 in MMNY, which investment would also be used to repay MMNY’s senior secured lender, if adult-use cannabis sales commenced in MMNY’s dispensaries.

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

Following receipt of such notice, on January 13, 2022, the Company filed a complaint against MedMen and others in the Commercial Division of the Supreme Court of the State of New York, requesting specific performance that the transactions contemplated by the Investment Agreement must move forward, and such other relief as the court may deem appropriate. On January 24, 2022, MedMen filed an answer and counterclaims against the Company (the “Counterclaims”). On February 14, 2022, the Company filed an amended complaint, not only seeking

specific performance but also damages related to MedMen's breaches of the Investment Agreement. On that same day, the Company also filed a motion to dismiss the Counterclaims. On March 7, 2022, MedMen filed an amended answer and counterclaims against the Company. On March 28, 2022, the Company moved to dismiss MedMen's amended counterclaims. That motion remains pending because the litigation is currently stayed.

On May 10, 2022, the Company and MedMen signed a term sheet, pursuant to which parties agreed to use best efforts to enter into a settlement agreement and enter into new or amended transactional documents. Specifically, if consummated, the agreements contemplated by the term sheet would entail, among other things, the Company paying MedMen \$15,000 in additional transaction consideration, and MedMen withdrawing its counterclaims against the Company. Per the amended transaction terms set out in the term sheet, upon closing, the Company would receive a 99.99% controlling interest of MMNY and the Company would pay MedMen \$74,000, which reflects the original transaction consideration plus an additional \$11,000 per the parties' term sheet. The Company already paid \$4,000 as a deposit.

The amended transaction terms set out in the term sheet also require MedMen to provide a representation and warranty that the status of the MMNY assets has not materially changed since December 31, 2021 and an acknowledgement that the representations and warranties from the Investment Agreement will survive for three months after the closing of the contemplated transactions. The Company has determined that MedMen cannot make or provide the representations and warranties it is required to as part of the contemplated transactions. Therefore, the Company no longer intends to consummate the contemplated transactions.

Subsequent Transactions

Acquisitions

On August 12, 2022, the Company entered into a definitive agreement (the "Ohio Agreement") that provides the Company the option to acquire 100% of the equity of Ohio Patient Access LLC ("OPA"), the holder of a license that grants it the right to operate three medical dispensaries in Ohio, which operations have not yet commenced. Under the Ohio Agreement, the Company will also acquire the real property of the three dispensary locations. Total cash consideration is \$22,300, plus an earn-out provision of up to \$7,300 that is dependent upon the commencement of adult-use cannabis sales in Ohio. The sellers may elect to receive the earn-out payment as either cash or shares of the Company's Class A common stock, or a combination thereof. If the sellers elect to receive any or all of the payment in shares, the number of shares issued will be equal to the earn-out payment amount, or portion thereof, divided by the thirty-day volume weighted average price of the Class A shares immediately preceding the date the earn-out provision is achieved. If the sellers elect to receive Class A shares for the earn-out, those shares would be issued pursuant to the exemption from registration contained in Section 4(a) (2) of the Securities Act of 1933, as amended. The Ohio Agreement is subject to regulatory review and approval. In conjunction with the Ohio Agreement, the parties also entered into a support services agreement under which the Company will provide management and advisory services to OPA for a set monthly fee. The parties also entered into a working capital loan agreement under which the Company may, at its full discretion, loan OPA up to \$10,000 for general working capital needs.

Additionally, the Company entered into definitive agreements to acquire two additional licenses in Illinois; one on August 11, 2022 for a total of \$5,500 of cash consideration, excluding transaction costs, and one on August 12, 2022 for a total of \$5,600 of cash consideration, excluding transaction costs. Neither of these licenses were associated with active operations at signing and the transfer of each license is subject to regulatory review and approval.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accompanying Financial Statements are prepared in accordance with GAAP, which requires us to make certain estimates in the application of our accounting policies based on the best assumptions, judgments, and opinions of our management. The Company's significant accounting policies are described in Note 2, "Basis of Presentation and Significant Accounting Policies," in the Financial Statements. There have been no significant changes to our critical accounting policies and estimates. For a description of our critical accounting policies, see Item 7., "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report.

Recently Adopted Accounting Standards and Recently Issued Accounting Pronouncements

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

The Company is an emerging growth company under federal securities laws and as such we are able to elect to follow scaled disclosure requirements for this filing, including an extended transition period for complying with new or revised accounting standards applicable to public companies.

REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS

In accordance with the Canadian Securities Administration Staff Notice 51-352, information regarding the current federal and state-level United States regulatory regimes in those jurisdictions where we are currently directly and indirectly involved in the cannabis industry, through our subsidiaries and investments, is incorporated by reference from subsections "Overview of Government Regulation," "Compliance with Applicable State Laws in the United States," and "State Regulation of Cannabis," under Item 1., "Business," of the Company's Annual Report, as filed with the Securities and Exchange Commission and with the relevant Canadian securities regulatory authorities under its profile on SEDAR.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed in varying degrees to various market risks, including changes in interest rates, prices of raw materials, and other financial instrument related risks. There have been no significant changes related to market risk, including those relating to the COVID-19 pandemic, from the disclosures in our Annual Report.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations associated with financial liabilities. We manage liquidity risk through the effective management of our capital structure. Our approach to managing liquidity is to ensure that we will have sufficient liquidity at all times to settle obligations and liabilities when due.

As reflected in the Financial Statements, the Company had an accumulated deficit as of June 30, 2022 and December 31, 2021, as well as a net loss for the three and six months ended June 30, 2022 and 2021, and negative cash flows from operating activities during the six months ended June 30, 2022 and 2021, which are indicators that raise substantial doubt of our ability to continue as a going concern. Management believes that substantial doubt of our ability to continue as a going concern for at least one year from the issuance of our Financial Statements has been alleviated due to: (i) cash on hand and (ii) continued growth of sales from our consolidated operations. Management plans to continue to access capital markets for additional funding through debt and/or equity financings to supplement future cash needs, as may be required. However, management cannot provide any assurances that we will be successful in accomplishing our business plans. If we are unable to raise additional capital on favorable terms, if at all, whenever necessary, we may be forced to decelerate or curtail certain of our operations until such time as additional capital becomes available.

ITEM 4. CONTROLS AND PROCEDURES.

a. Disclosure Controls and Procedures.

As of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer evaluated our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the United States Securities and Exchange Commission and (2) accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

b. Changes in Internal Control Over Financial Reporting.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation described above 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.

A discussion of our litigation matters occurring in the period covered by this report is found in [Note 15](#), “Commitments and Contingencies,” to the Financial Statements in this Form 10-Q.

ITEM 1A. RISK FACTORS.

As of the date of this filing, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021, in response to Item 1A., “Risk Factors,” of Part I of the Annual Report.

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

There have been no sales of unregistered securities during the quarter ended June 30, 2022, and from the period from July 1, 2022 to the filing date of this report, which have not been previously disclosed in a prior Current Report on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

On August 12, 2022, the Company entered into a definitive agreement that provides the Company the option to acquire 100% of the equity of Ohio Patient Access LLC. This agreement contains an earn-out provision that the sellers may elect to receive as either cash or shares of the Company’s Class A common stock, or a combination thereof. See [Note 18](#), “Subsequent Events,” to the Financial Statements in this Form 10-Q.

ITEM 6. EXHIBITS.

(a) EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Certificate of Incorporation	S-1	333-254800	3.4	April 23, 2021
3.2	Bylaws	S-1	333-254800	3.5	April 23, 2021
4.1†	Ascend Wellness Holdings, Inc. 2021 Stock Incentive Plan	S-8	333-257780	4.2	July 9, 2021
4.2†	Ascend Wellness Holdings, Inc. 2021 Employee Stock Purchase Plan	S-8	333-257780	4.3	July 9, 2021
4.3	Specimen Stock Certificate evidencing the shares of common stock	S-1	333-254800	4.1	April 15, 2021
4.4	Form of Registration Rights Agreement	S-1	333-254800	4.2	April 23, 2021
4.5*	Form of Warrant Agreement between Ascend Wellness Holdings, Inc. and each of the several lenders, dated June 30, 2022				
10.1+#	Agreement and Plan of Merger among Ascend Wellness Holdings, Inc., AWH Pennsylvania, LLC, Ascend PA Merger Sub, LLC, Story of PA CR, LLC, the Members named therein and KGF PACR HoldCo, LLC, dated April 19, 2022	8-K	333-254800	10.1	April 25, 2022
31.1*	Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Periodic Report by Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.				
32‡	Certification of Chief Executive Officer and Chief 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 (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL*	Inline XBRL Taxonomy Calculation Linkbase Document				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	Inline XBRL Taxonomy Label Linkbase Document				
101.PRE*	Inline XBRL Presentation Linkbase Document				
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

* Filed herewith.

† Indicates management contract or compensatory plan, contract or arrangement.

‡ Document has been furnished, is not deemed filed and is not to be incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language contained in any such filing.

+ Portions of this exhibit have been redacted in compliance with Regulations S-K Item 601(b)(2). The omitted information is not material and would likely cause competitive harm to the Company if publicly disclosed. The Company agrees to furnish an unredacted copy to the SEC upon its request.

Certain schedules and exhibits have been omitted in compliance with Regulation S-K Item 601(a)(5). The Company agrees to furnish a copy of any omitted schedule or exhibit to the SEC upon its request.

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.

August 15, 2022

Ascend Wellness Holdings, Inc.

/s/ Daniel Neville
Daniel Neville
Chief Financial Officer
(Principal Financial Officer)

August 15, 2022

/s/ Roman Nemchenko
Roman Nemchenko
Senior Vice President,
Chief Accounting Officer
(Principal Accounting Officer)

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS WARRANT NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL SELECTED BY THE HOLDER, IN A FORM REASONABLY SATISFACTORY TO THE COMPANY, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT.

THIS WARRANT IS ONE OF THE WARRANTS TO PURCHASE COMMON STOCK ISSUED PURSUANT TO THAT CERTAIN SUBSCRIPTION AGREEMENT, DATED AS OF JUNE 30, 2022, BY AND AMONG THE COMPANY AND THE INVESTORS REFERRED TO THEREIN. ANY HOLDER OF THIS WARRANT TAKES SUCH WARRANT SUBJECT TO THE TERMS AND CONDITIONS OF SUCH SUBSCRIPTION AGREEMENT AND, BY ITS ACCEPTANCE HEREOF, AGREES TO ABIDE BY THE TERMS AND CONDITIONS THEREOF NOTWITHSTANDING ANYTHING TO THE CONTRARY SET FORTH HEREIN.

CANADIAN RESALE RESTRICTION APPLICABLE TO CANADIAN SUBSCRIBERS ONLY: UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE NOVEMBER 1, 2022.

FORM OF WARRANT TO PURCHASE COMMON STOCK

Company: Ascend Wellness Holdings, Inc.

Holder: [•]

Number of Shares: [•]

Class of Stock: Class A Common Stock, par value \$0.001 per share (the “*Common Stock*”)

Initial Exercise Price: \$3.10 per share

Issue Date: June 30, 2022

Expiration Date: June 30, 2026, subject to acceleration in accordance with Sections 1.2 and 2.1, as applicable

Second Joinder Agreement: This Warrant to Purchase Common Stock (this “*Warrant*”) is issued in connection with that certain Second Joinder Agreement, dated as of the date hereof, to the Credit Agreement, dated as of August 27, 2021, by and among the Company, as borrower, the lenders from time to time party thereto, Acquiom Agency Services LLC, as administrative agent and collateral Agent for the lenders thereunder and Seaport Global Securities LLC, as Placement Agent.

This Warrant certifies that, for good and valuable consideration, Holder is entitled to purchase from the Company, until 5:00 p.m. Eastern Time, on the Expiration Date set forth above, the number of fully paid and nonassessable shares of Common Stock (the “**Shares**”) of the Company at the Initial Exercise Price per Share (the “**Warrant Price**”), all as set forth above and as adjusted pursuant to Section 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant. This Warrant is one of the Warrants to purchase Common Stock (the “**Lender Warrants**”) issued pursuant to Section 2 of that certain Subscription Agreement, dated as of June 30, 2022 (the “**Subscription Date**”), by and among the Company and the investors (the “**Subscribers**”) referred to therein (the “**Subscription Agreement**”). Capitalized terms used herein and not otherwise defined shall have the definitions ascribed to such terms in the Subscription Agreement.

1. **EXERCISE.**

1.1 **Exercise of Warrant.**

1.1.1 Holder may exercise this Warrant, in whole or in part, at any time or times on or after the Issue Date and on or before the Expiration Date by delivering a duly executed facsimile copy or PDF copy submitted by Email (or Email attachment) of the Notice of Exercise in substantially the form attached hereto as Exhibit A (the “**Notice of Exercise**”) to the Company. Within one (1) Trading Day following the date of exercise, the Holder shall deliver the aggregate Warrant Price, subject to adjustment hereunder, for the number of Shares specified in the applicable Notice of Exercise (the “**Exercise Amount**”) by check or wire transfer to an account specified by the Company in writing following delivery of the Notice of Exercise (or through cashless exercise as provided for in Section 1.1.2).

1.1.2 If at the time of exercise hereof there is no effective registration statement registering the resale of the Shares issuable upon exercise of the Warrant, then this Warrant may be exercised, in whole or in part, at such time by means of a “cashless exercise” in which the Holder shall be entitled to receive a number of Shares equal to the quotient obtained by dividing $[(A-B) (X)]$ by (A), where:

(A) = as applicable: (i) the VWAP on the Trading Day immediately preceding the date of the applicable Notice of Exercise if such Notice of Exercise is (1) both executed and delivered pursuant to Section 1.1 hereof on a day that is not a Trading Day or (2) both executed and delivered pursuant to Section 1.1 hereof on a Trading Day prior to the opening of or during “regular trading hours” (as defined in Rule 600(b)(68) of Regulation NMS promulgated under U.S. federal securities laws) on such Trading Day, or (ii) the VWAP on the date of the applicable Notice of Exercise if the date of such Notice of Exercise is a Trading Day and such Notice of Exercise is both executed and delivered pursuant to Section 1.1 hereof after the close of “regular trading hours” on such Trading Day;

(B) = the Warrant Price, as adjusted hereunder; and

(X) = the number of Shares that would be issuable upon exercise of this Warrant in accordance with the terms of this Warrant if such exercise were by means of a cash exercise rather than a cashless exercise.

For the avoidance of doubt, this Warrant may only be exercised by the Holder pursuant to a cashless exercise pursuant to this Section 1.1.2 if, and only if, at the time of exercise hereof, there is no effective registration statement registering the resale of the Shares issuable upon exercise of the Warrant, as determined by the Company in good faith. The Holder hereby acknowledges and agrees that it will provide all information reasonably requested by the Company in connection with the preparation and filing with the United States Securities and Exchange Commission of a registration statement registering the Shares for resale and hereby consents to being named as a “selling stockholder” in such registration statement.

1.2 Mandatory Exercise. If after the one year anniversary of the Issue Date, the VWAP (as defined below) of the Common Stock for any consecutive thirty (30) day period exceeds \$6.50 per share (as may be adjusted pursuant to Section 2 herein) (each an “**Exercise Trigger**”), the Company shall have the right (but not the obligation) to require Holder to exercise some or all of any unexercised portion of this Warrant, as designated by the Company in the Mandatory Exercise Notice on the Mandatory Exercise Date (each as defined below) (each, a “**Mandatory Exercise**”). The Company may exercise its right to require Holder to exercise this Warrant pursuant to this Section 1.2 by delivering a written exercise notice (the “**Mandatory Exercise Notice**”) at any time after the occurrence of an Exercise Trigger (the date of the Mandatory Exercise Notice, the “**Mandatory Exercise Notice Date**”). The Mandatory Exercise Notice shall state (i) the Trading Day by which the Mandatory Exercise shall occur, which shall be no later than the third (3rd) Trading Day following the Mandatory Exercise Notice Date (the “**Mandatory Exercise Date**”), (ii) the aggregate number of Shares underlying the Warrant that the Company has elected to require that the Holder exercise in connection with such Mandatory Exercise (the “**Mandatory Exercise Amount**”) pursuant to this Section 1.2 and (iii) the Company’s wire instructions for delivery of the aggregate Warrant Price due in connection with the Mandatory Exercise. Holder shall be required to deliver the aggregate Warrant Price and the Notice of Exercise by no later than the Mandatory Exercise Date. “**Trading Day**” means, with respect to any security, any day on which such security is traded on the principal securities exchange or trading market for such security, provided that “Trading Day” shall not include any day that such security is suspended from trading during the final hour of trading on such exchange or market.

For purposes of this Warrant, “**VWAP**” means, with respect to any security, as of any day or period of days (as the case may be), the volume-weighted average sale price on the principal securities exchange or trading market for such security as reported by, or based upon data reported by, Bloomberg Financial Markets or, if no volume-weighted average sale price is reported for such security by Bloomberg Financial Markets, then the last closing trade price of such security as reported by Bloomberg Financial Markets, or, if no last closing trade price is

reported for such security by Bloomberg Financial Markets, the average of the bid prices of any market makers for such security that are listed in the over the counter market by the Financial Industry Regulatory Authority, Inc. or on the Over the Counter Bulletin Board or any successor (the “**Bulletin Board**”) (or in the OTCQB market or “pink sheets” (or any successor) by the OTC Markets Group, Inc.

1.3 Delivery of Shares Upon Exercise. Subject to compliance with applicable law, within two (2) Trading Days after the Company receives the aggregate Warrant Price (the “**Share Delivery Date**”) for the Exercise Amount or the Mandatory Exercise Amount (or notification of cashless exercise, if applicable), as applicable, the Company shall cause the Shares purchased hereunder to be transmitted by Odyssey Trust Company or its successor (the “**Transfer Agent**”) to Holder by crediting the account of Holder’s balance account with the Depository Trust Company (“**DTC**”) through its Deposit or Withdrawal at Custodian system (“**DWAC**”) if the Company is then a participant in such system, or by delivering certificate(s) or ownership statements under a direct registration system representing the Exercise Amount or Mandatory Exercise Amount, as applicable, purchased hereunder. If this Warrant has not been fully exercised or converted and has not expired, this Warrant shall automatically be reduced by the number of Shares issued and remain exercisable for such remaining Shares not so acquired, and all other terms of the Warrant shall otherwise remain in full force and effect as so adjusted. Upon final exercise of this Warrant for any such remaining number of Shares, this Warrant shall be surrendered by the Holder to the Company for cancellation within three (3) Trading Days of the date on which the final Notice of Exercise is delivered to the Company. **Holder and any assignee, by acceptance of this Warrant, acknowledges and agrees that, by reason of the provisions of this paragraph, following the purchase of a portion of the Shares hereunder, the number of Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

1.4 Replacement of Warrants. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form, substance and amount to the Company or, in the case of mutilation, or surrender and cancellation of this Warrant, the Company at its expense shall execute and deliver to Holder, in lieu of this Warrant, a new warrant of like tenor and amount.

1.5 Sale, Merger, Consolidation or Liquidation of the Company.

1.5.1 “Acquisition”. For the purpose of this Warrant, “**Acquisition**” means any of the following transactions, whether effected directly or indirectly in one or a series of related transactions involving: (i) any merger or consolidation of the Company with or into another person, (ii) any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of the assets of the Company and its subsidiaries, (iii) the consummation of any purchase offer, tender offer or exchange offer (whether by the Company or another person) pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property, (iv) any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange by the Company

pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property and (v) the consummation of a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off, merger or scheme of arrangement) with another person or group of persons; provided, however, only those transactions described in clauses (i), (iii), (iv) and (v) that result in the holders of the Company's outstanding Common Stock as of immediately prior to the transaction (or series of related transactions) beneficially owning less than a majority by voting power of the outstanding shares of common stock of the surviving or successor entity as of immediately after the transaction shall be considered an Acquisition.

1.5.2 Assumption of Warrant. Upon the consummation of such Acquisition where the consideration for the Acquisition to be received by the Company's stockholders consists solely or in part of stock or securities of the acquirer or an entity affiliated with the acquirer, the successor entity shall assume the obligations of this Warrant, and this Warrant shall be exercisable for the same securities as would be payable for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on the record date for the Acquisition and subsequent closing thereof, subject to further adjustment from time to time in accordance with the provisions of this Warrant. The Warrant Price shall be adjusted based on the exchange ratio that applies to the Company's Common Stock in the Acquisition (i.e. the Warrant Price will be divided by the exchange ratio).

1.5.3 Termination of Warrant. In the case of (a) an Acquisition where the consideration for the Acquisition to be received by the Company's stockholders in return for their equity of the Company consists of cash or a combination of cash and other property (other than stock or securities of the acquirer) or (b) the proposed liquidation and dissolution of the Company, the Company shall give Holder at least 30 days advance written notice of such event (the "**Company Notice**"), which notice shall include the Company's best estimate of the value of the Shares receivable upon exercise or conversion of this Warrant (including, without limitation, the consideration payable to holders of Common Stock on a per share basis in connection with an Acquisition) and the proposed date upon which such event is expected to occur. During such notice period, Holder may exercise or convert this Warrant in accordance with its terms, whether or not the exercise or conversion is contingent upon the happening of such event and/or existence of a minimum value of the Shares receivable upon exercise or conversion as provided on Holder's exercise notice; provided that such minimum value shall be no greater than the per share price set forth in the Company Notice. Subject to prior exercise or conversion as provided in the preceding sentence, this Warrant will terminate at 5:00 p.m. Eastern Time on the day prior to the date such event is expected to occur as set forth in the Company Notice; provided that (a) the Company Notice of the proposed event is actually received by Holder, as evidenced by a return receipt of certified mail delivery, a certificate of delivery by hand delivery or written verification of delivery from the overnight courier, and (b) the event actually occurs within (30) days after the date it is expected to occur, as such date was specified in the Company Notice.

1.5.4 Holder Put Right. Notwithstanding anything to the contrary herein, in the event of an Acquisition pursuant to which the Company's stockholders will be entitled to receive consideration in exchange for their Common Stock in a per share amount that is less than

the Warrant Price (as adjusted pursuant to the terms of this Warrant), at any time on or after a Holder's receipt of a Company Notice in accordance with Section 1.5.3 herein and before the fifth (5th) Trading Day prior to the consummation of such Acquisition, each Holder shall have the right (the "**Put Right**") to require the Company to purchase the Warrants then held by such Holder concurrently with the consummation of such Acquisition by delivering written notice to the Company (the "**Put Notice**") indicating the Warrants held by the Holder to which the Put Notice applies. In the event a Holder exercises the Put Right in accordance with this Section 1.5.4, the Company shall, concurrently with and subject to the consummation of the Acquisition, purchase, or cause another party to such Acquisition to purchase, the Warrants to which the Put Notice applies for an amount in cash equal to the Black Scholes Value of such Warrants.

As used herein: "**Black Scholes Value**" means the value of the Warrants subject to a Put Notice at the time such Put Notice is delivered, which value is to be calculated using the Black Scholes Option Pricing Model obtained from the "OV" function on Bloomberg utilizing (i) an underlying price per share equal to the greater of (1) the highest Closing Sale Price of the Company's Common Stock during the period beginning on the Trading Day immediately preceding the announcement of the applicable Acquisition (or the consummation of the applicable Acquisition, if earlier) and ending on the Trading Day that the Put Notice is delivered and (2) the sum of the price per share being offered in cash in the applicable Acquisition (if any) plus the Fair Market Value of the non-cash consideration being offered in the applicable Acquisition (if any), (ii) a strike price equal to the Exercise Price in effect on the date that the Put Notice is delivered, (iii) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the greater of (1) the remaining term of the Warrants as of the date that a Put Notice is delivered and (2) the remaining term of the Warrants as of the date of consummation of the applicable Acquisition, (iv) a zero cost of borrow and (v) an expected volatility equal to the 90 day volatility obtained from the "HVT" function on Bloomberg (determined utilizing a 260 day annualization factor) as of the Trading Day immediately following the earliest to occur of (A) the public disclosure of the applicable Acquisition, (B) the consummation of the applicable Acquisition and (C) the date on which the applicable Holder was first notified by the Company in writing of the execution and delivery of a definitive agreement with respect to the applicable Acquisition; "**Fair Market Value**" means (i) in the case of cash, the amount of such cash, (ii) in the case of a security, the Market Price of such security, or (iii) in the case of any consideration other than cash or securities, the amount as determined by the Company's board of directors (the "**Board**") in good faith. "**Market Price**" as of a particular date means: (i) if the security is then listed on a national securities exchange, the closing sale price of one (1) share of such security on such exchange on the last Trading Day for such security prior to such date; (ii) if the security is then quoted on the Bulletin Board or any similar quotation system or association, the closing sale price of one (1) share of such security on the Bulletin Board or such other quotation system or association on the last Trading Day for such security prior to the such date or, if no such closing sale price is available, the average of the high bid and the low asked price quoted thereon on the last Trading Day for such security prior to such date; or (iii) if the security is not then listed on a national securities exchange or quoted on the Bulletin Board or such other quotation system or association, the fair value of one (1) share of such security as of such date, as determined by the Board in good faith.

2. CERTAIN ADJUSTMENTS.

2.1 Adjustment of Warrant Price Upon Issuance of Shares. Upon the Company's first capital raise transaction (whether a single transaction or a series of related transactions and excluding issuances of Common Stock as consideration for, or whose proceeds will be used in connection with, mergers, acquisitions or other business combinations, joint ventures, collaborations, strategic alliances, or third-party service arrangements occurring after the date of this Warrant which are not used solely for capital raising purposes, issuances pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by the Company or any of its subsidiaries and issuances pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the date of the Warrant) having gross proceeds of greater than fifteen million dollars (\$15,000,000.00) at a per share price less than the Warrant Price (a "***Dilutive Issuance***"), the Warrant Price shall be reduced to the lesser of (i) 120% of the per share price of the Company's Common Stock sold by the Company in the Dilutive Issuance; and (ii) 120% of the weighted average per share price of the Company's Common Stock issued in the Dilutive Issuance (if shares of Common Stock were sold at different prices in such Dilutive Issuance). For the avoidance of doubt, the Warrant Price shall not be adjusted if the Company issues common shares in exchange for proceeds of fifteen million dollars (\$15,000,000.00) or less. For the avoidance of doubt, the Warrant Price shall not be adjusted upwards pursuant to this Section 2.1. Notwithstanding the foregoing or anything to the contrary contained herein, in no event shall the Warrant Price be adjusted in a manner that would: (i) be prohibited by applicable securities laws or the requirements of the Canadian Securities Exchange (or the applicable primary securities exchange on which the Company's Common Stock trades at such time) (a "***Prohibited Adjustment***") or (ii) require the approval of the Company's stockholders. In the event that this Section 2.1 would otherwise result in a Prohibited Adjustment to the Warrant Price or would require the approval of the Company's stockholders, the Warrant Price shall be adjusted only to the extent permissible under applicable securities laws and the requirements of the Canadian Securities Exchange (or the applicable primary securities exchange on which the Company's Common Stock trades at such time) without requiring the approval of the Company's stockholders. By acceptance of this Warrant, the Holder shall be deemed to have consented to any adjustment to the Warrant Price in accordance with this Section 2.1. In the event that the Company's Common Stock is listed and posted for trading on the Canadian Securities Exchange, and an adjustment pursuant to this Section 2.1 would result in the Warrant Price being below \$2.04, then if, following the amendment, for any ten consecutive trading days (the seventh day following such day being the "***Acceleration Date***") the closing price of the Company's Common Stock on the Canadian Securities Exchange exceeds the amended Warrant Price by the applicable private placement discount prescribed by the Policies of the Canadian Securities Exchange at such time, the Expiration Date shall be accelerated to the date that is 30 days following the Acceleration Date.

2.2 Dividends, Splits, Etc. If the Company declares or pays a dividend or distribution on all of the issued and outstanding shares of the Company's Common Stock payable in cash, shares of the Company's Common Stock or other securities of the Company or subdivides or combines the outstanding shares of the Company's Common Stock, then upon exercise or conversion of this Warrant, Holder shall receive, without cost to Holder, the cash

and/or the total number and kind of securities to which Holder would have been entitled had Holder owned the Shares of record as of the date the dividend, distribution, subdivision or combination occurred.

2.3 Reclassification, Exchange or Substitution. Upon any reclassification, exchange, substitution, or other event that results in a change of the number and/or class of the securities issuable upon exercise or conversion of this Warrant (other than a merger, consolidation or recapitalization described in Section 1.5 above or a dividend, split, etc. described in Section 2.2 above), Holder shall be entitled to receive, upon exercise or conversion of this Warrant, the number and kind of securities and property that Holder would have received for the Shares if this Warrant had been exercised immediately before such reclassification, exchange, substitution or other event. The Company or its successor shall promptly issue to Holder a new Warrant for such new securities or other property. The new Warrant shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 2 including, without limitation, appropriate adjustments to the Warrant Price and to the number of securities or property issuable upon exercise or conversion of the new Warrant.

2.4 Adjustments of Warrant Price. If the outstanding shares of the Company's Common Stock are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased. If the outstanding shares of the Company's Common Stock are divided by reclassification or otherwise, into a greater number of shares, the Warrant Price shall be proportionately decreased.

2.5 Adjustment is Cumulative. The provisions of this Section 2 shall similarly apply to successive, dividends, stock splits or combinations, reclassifications, exchanges, substitutions, replacement or other events.

2.6 No Impairment. The Company shall not, by amendment of its organizational documents or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Warrant by the Company, but shall at all times in good faith assist in carrying out of all the provisions of this Section 2 and in taking all such action as may be necessary or appropriate to protect Holder's rights under this Section 2 against impairment.

2.7 Fractional Shares. No fractional Shares or scrip representing fractional Shares shall be issuable upon exercise or conversion of the Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional share interest arises upon any exercise or conversion of the Warrant, the Company shall eliminate such fractional Share interest by paying Holder an amount by check computed by multiplying the fractional interest by the applicable Warrant Price.

2.8 Certificate as to Adjustments. Upon each adjustment of the Warrant Price, the Company at its expense shall compute such adjustment, and furnish Holder with a certificate of its Chief Financial Officer setting forth such adjustment and the facts upon which

such adjustment is based. The Company shall, upon written request from Holder, furnish Holder a certificate setting forth the Warrant Price in effect upon the date thereof and the series of adjustments leading to such Warrant Price.

3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 Representations and Warranties. The Company hereby represents and warrants to the Holder that all Shares which may be issued upon the exercise of the purchase right represented by this Warrant, and all securities, if any, issuable upon conversion of the Shares, shall, upon issuance, be duly authorized, validly issued, fully paid and nonassessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable securities laws. The Company covenants that it shall at all times cause to be reserved and kept available out of its authorized and unissued capital stock such number of Common Stock as will be sufficient to permit the exercise in full of this Warrant.

4. REPRESENTATIONS OF HOLDER: TRANSFER.

4.1 Representations. Holder hereby represents and warrants to the Company as follows. Holder is an Accredited Investor, as such term is defined in Rule 501 of Regulation D of the Securities Act. Holder is aware that this Warrant and the Shares are being, or will be, issued to Holder in reliance upon Holder's representation in this Section 4 and that such securities are restricted securities that cannot be publicly sold except in certain prescribed situations. Holder has received such information about the Company as Holder deems reasonable, has had the opportunity to ask questions and receive answers from the Company with respect to its business, assets, prospects and financial condition and has verified any answers Holder has received from the Company with independent third parties to the extent Holder deems necessary. The Holder of this Warrant, by acceptance hereof, acknowledges this Warrant and the Shares to be issued upon exercise hereof or conversion thereof are being acquired solely for the Holder's own account and not as a nominee for any other party, and for investment, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any Shares to be issued upon exercise hereof or conversion thereof except under circumstances that will not result in a violation of the securities laws.

4.2 Restriction on Transfer and Compliance with Securities Laws on Transfer.

4.2.1 Holder understands that the Warrants and the Shares issuable upon exercise of the Warrants shall only be transferrable in accordance with the terms and conditions of this Warrant, the Subscription Agreement and applicable securities laws and, except as set forth below, shall bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of such Shares):

[NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS WARRANT NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN][THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN] REGISTERED UNDER THE SECURITIES ACT OF

1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL SELECTED BY THE HOLDER, IN A FORM REASONABLY SATISFACTORY TO THE COMPANY, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT.

The legend set forth above shall be removed and the Company shall issue a certificate or ownership statement under a direct registration system without such legend to the holder of the securities upon which it is stamped or issue to such holder by electronic delivery at the applicable balance account at DTC, if (i) such securities are registered for resale under the Securities Act and the holder has delivered to the Company a representation that such securities have been sold pursuant to such registration statement, or (ii) in connection with a sale, assignment or other transfer, such holder provides the Company with an opinion of counsel, reasonably satisfactory to the Company as to such counsel and to the form of opinion, to the effect that such sale, assignment or transfer of the Securities may be made (or was made, as applicable under Rule 144) without registration under the applicable requirements of the Securities Act.

4.2.2 Canadian Legend. If Holder is a Canadian Subscriber or otherwise subject to the Canadian Securities Laws, Holder understands and acknowledges that this Warrant and any Shares issuable upon the exercise of this Warrant issued before the date that is four months and one day from the Issue Date, shall bear a restrictive legend in substantially the following form:

CANADIAN RESALE RESTRICTION APPLICABLE TO A CANADIAN SUBSCRIBERS ONLY: UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE NOVEMBER 1, 2022.

4.3 Transfer Procedure. Subject to the provisions of Sections 4.2, 4.3 and 4.4 of this Warrant and Sections 3.2(h) and (k) of the Subscription Agreement, Holder may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the securities issuable, directly or indirectly, upon conversion of the Shares, if any) by giving the Company a written notice of the portion of the Warrant or such Shares (or such securities) being transferred, such notice setting forth the name, address and taxpayer identification number of the transferee, and, with respect to the Warrant, surrendering this Warrant to the Company for reissuance to the transferee(s) (and to the new Holder for any remaining Shares, if applicable). The Company shall have the right to refuse to transfer any portion of this Warrant to any person or entity who directly competes with the Company (as determined by the Company's Board of Directors in its reasonable good faith judgment), except in connection with an Acquisition of the Company by such a direct competitor. In connection with any transfer hereunder, the transferee's acceptance of the transferred Warrant and shall be deemed to constitute acceptance by such transferee of all of the rights and obligations of a Holder of a Warrant. As a condition precedent to any transfer, the Holder and the transferee shall provide the Company, together with the Form of Assignment attached hereto as Exhibit B, a duly executed Transferee Representation Letter in

the form attached hereto as Exhibit C and such other information, confirmations and acknowledgements as the Company may reasonably request to confirm that the transfer is permitted under applicable securities laws.

4.4 Canadian Transfer Restrictions. The Holder represents and warrants that he, she or it will not sell, transfer or distribute any Warrants, or Shares issuable upon the due exercise of the Warrants, in Canada before the date that is four months and a day after the initial distribution of the Warrants, except pursuant to a Canadian prospectus or prospectus exemption under applicable Canadian securities laws. The Holder further acknowledges that neither the Warrants nor the Shares: (i) have been, nor will they be, as applicable, qualified for distribution by a prospectus in Canada, and (ii) may be offered or sold in Canada during the course of their distribution except pursuant to a Canadian prospectus or prospectus exemption under applicable Canadian securities laws.

5. GENERAL PROVISIONS.

5.1 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of: (a) the time of transmission, if such notice or communication is delivered via email or facsimile at or prior to 5:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via email or facsimile on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (c) the second (2nd) Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service or by International Federal Express, (d) the third (3rd) Trading Day following the date of mailing if sent by first-class registered or certified mail domestic, or (e) upon actual receipt by the party to whom such notice is required to be given. The addresses for such communications shall be:

If to the Company: Ascend Wellness Holdings, Inc.
1411 Broadway, 16th Floor
New York, NY, 10018
Attn: Chief Financial Officer
Email: [***]

With a copy to: Foley Hoag LLP
155 Seaport Boulevard
Boston, MA 02210
Fax: 617.832.7000
Attention: Thomas B. Draper, Esq.
Email: [***]

If to the Holder: To the address, email address or
facsimile number set forth on the signature page hereto

5.2 Attorney's Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys' fees.

5.3 Governing Law. This Warrant will be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to that body of laws pertaining to conflict of laws.

5.4 Further Assurances. The parties agree to execute such further documents and instruments and to take such further actions as may be reasonably necessary to carry out the purposes and intent of this Warrant.

5.5 Titles and Headings. The titles, captions and headings of this Warrant are included for ease of reference only and will be disregarded in interpreting or construing this Warrant. Unless otherwise specifically stated, all references herein to "sections" and "exhibits" will mean "sections" and "exhibits" to this Warrant.

5.6 Counterparts. This Warrant may be executed in any number of counterparts, each of which when so executed and delivered will be deemed an original, and all of which together shall constitute one and the same agreement.

5.7 Severability. If any provision of this Warrant is determined by any court or arbitrator of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such provision will be enforced to the maximum extent possible given the intent of the parties hereto. If such clause or provision cannot be so enforced, such provision shall be stricken from this Warrant and the remainder of this Warrant shall be enforced as if such invalid, illegal or unenforceable clause or provision had (to the extent not enforceable) never been contained in this Warrant. Notwithstanding the forgoing, if the value of this Warrant based upon the substantial benefit of the bargain for any party is materially impaired, which determination as made by the presiding court or arbitrator of competent jurisdiction shall be binding, then both parties agree to substitute such provision(s) through good faith negotiations.

5.8 Facsimile Signatures. This Warrant may be executed and delivered by facsimile and upon such delivery the facsimile signature will be deemed to have the same effect as if the original signature had been delivered to the other party. The original signature copy shall be delivered to the other party by express overnight delivery. The delay or failure to deliver the original signature copy and/or the nonreceipt of the original signature copy shall have no effect upon the binding and enforceable nature of this Warrant.

5.9 Amendment and Waivers. This Warrant may be amended and the observance of any term of this Warrant may be waived only with the written consent of the Company and the Holder.

5.10 Warrantholder not a Stockholder. Except as may be specifically provided herein, nothing in this Warrant shall, in itself, confer or be construed as conferring upon

a Holder any right or interest whatsoever as a stockholder of the Company, including, but not limited to, the right to vote at, to receive notice of, or to attend, meetings of stockholders or any other proceedings of the Company, or the right to dividends and other allocations.

5.11 Currency. Unless otherwise specified in this Agreement, all references to currency, monetary values and dollars set forth herein shall mean United States dollars and all payments hereunder shall be made in United States dollars

5.12 Entire Agreement. This Warrant and the documents referred to herein constitute the entire agreement and understanding of the parties with respect to the subject matter of this Warrant, and supersede all prior understandings and agreements, whether oral or written, between or among the parties hereto with respect to the specific subject matter hereof.

[Signature page follows.]

COMPANY

ASCEND WELLNESS HOLDINGS, INC.

By:

Name:

Title:

HOLDER

[•]

By:

Name:

Title:

Email Address: [•]

Address: [•]

Telephone Number: [•]

Facsimile Number: [•]

EXHIBIT A

NOTICE OF EXERCISE

(TO BE SIGNED ONLY UPON EXERCISE OF WARRANT)

1. The undersigned hereby elects to purchase _____ shares of the Common Stock, par value \$0.001 per share (the “**Shares**”) of Ascend Wellness Holdings, Inc., a Delaware corporation, pursuant to the terms of the attached Warrant to Purchase Common Stock with an Issue Date of June 30, 2022 (the “**Warrant**”), as follows:

(Initial applicable method:)

- _____ a. The undersigned tenders herewith payment of the total purchase price of such Shares in full, pursuant to a check or wire transfer, in the amount of \$_____.
- _____ b. On a “cashless” basis pursuant to section 1.1.2, if applicable, as determined in accordance with such section.
- _____ c. This exercise or conversion _____ **[is]** _____ **[is not]** contingent upon the closing of the Acquisition or other event specified in the Company Notice to Holder in accordance with Section 1.5.3 of the Warrant received by Holder on _____ and _____ **[is]** _____ **[is not]** contingent upon a sale price or fair market value for the Company’s Common Stock in the Acquisition or other event of no less than the lesser of (a) \$_____ per share or (b) the per share price set forth in the Company Notice.

2. Please issue a certificate or certificates representing said Shares in the name of the undersigned. The undersigned represents that it is acquiring the shares solely for its own account and not as a nominee for any other party and not with a view toward the resale or distribution thereof except in compliance with applicable securities laws and hereby represents and warrants that the representations and warranties set forth in Section 4.1 of the attached Warrant and Section 3.2 of the Subscription Agreement are true and correct as if made on the date hereof. The undersigned will provide any additional information reasonably requested by the Company in connection with the exercise of the Warrant (including any information required to deliver the Shares).

(Printed Name of Holder)

Address:

(Signature of Holder)

INSTRUCTIONS:

1. If this Notice of Exercise indicates that the Shares are to be issued to a person or persons other than the registered holder of the Warrants to be converted: (i) the signature of the registered holder on this Notice of Exercise must be medallion guaranteed by an authorized officer of a chartered bank, trust corporation or an investment dealer who is a member of a recognized stock exchange, and (ii) the registered holder must pay to the Company all applicable taxes and other duties.
2. If this Notice of Exercise is signed by a trustee, executor, administrator, custodian, guardian, attorney, officer of a corporation or any other person acting in a fiduciary or representative capacity, this Notice of Exercise must be accompanied by evidence of authority to sign satisfactory to the Company.

EXHIBIT B

FORM OF ASSIGNMENT

(To assign the foregoing Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the undersigned assigns and transfers the Warrant to:

Assignee Name: _____
Assignee Address: _____

and irrevocably appoints the following _____ as its agent to transfer such Warrants on the books of the Company and the Transfer Agent.

Assignor Name: _____
By: _____
Name: _____
Title: _____
Date: _____

Instructions for Transfer:

1. The signature of the registered holder must be signature guaranteed by a Canadian or United States chartered bank, Medallion Guarantee or other entity acceptable to the Company.
2. If the Form of Assignment is signed by a trustee, executor, administrator, curator, guardian, attorney, officer of a corporation or any person acting in a fiduciary or representative capacity, the certificate must be accompanied by evidence of authority to sign satisfactory to the Company.

Exhibit C

FORM OF TRANSFEREE REPRESENTATION LETTER

[•], 202[•]

Ascend Wellness Holdings, Inc.
1411 Broadway, 16th Floor
New York, NY, 10018

Ladies and Gentlemen:

Reference is hereby made to that certain Warrant, dated as of June 30, 2022 (the “Warrant”), issued by Ascend Wellness Holdings, Inc. (the “Company”) to _____ (the “Transferor”) and exercisable for up to _____ shares of the Company’s Common Stock (the “Shares”), on the terms set forth in the Warrant. Capitalized terms used but not otherwise defined herein have the meanings ascribed to such terms in the Warrant.

The entity/individual set forth on Schedule I attached hereto under the heading “Transferor” desires to transfer (the “Transfer”) the Warrant with respect to the number of Shares set forth on Schedule I attached hereto under the heading “Transferred Warrants” (the “Transferred Warrant”) to the undersigned (“Transferee”).

Transferee acknowledges and agrees that, upon consummation of the Transfer, the Transferred Warrant shall be subject to, and entitled to the benefit of, the terms, provisions and conditions set forth in the Warrant.

In connection with, and as a condition to, the Transfer, Transferee hereby represents and warrants to the Company as follows:

1. It is an “Accredited Investor,” as that term is defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended (the “Securities Act”).
2. It has such knowledge, skill and experience in securities, business and financial matters and investments generally, based on actual participation, that it is capable of evaluating the merits and risks of an investment in the Company and the Transferred Warrant and the suitability thereof as an investment for it.
3. It is capable of bearing and managing the risk of its investment in the Transferred Warrant.
4. It has reviewed such documents and information from the Company that it has requested and has had adequate opportunity to ask questions of and receive answers from the Company’s officers, directors and representatives concerning the terms and conditions of the Transferred Warrant, and the Company’s business, financial condition, properties, operations and prospects, and, without limiting any of Transferee’s rights under the Transferred Warrant, all such questions, if any, have been answered to its satisfaction. The Transferee is relying on its own investigation and evaluation of the Company and the Transferred Warrant and not on any other information.
5. It is acquiring the Transferred Warrant, and any Common Stock issuable upon exercise thereof, for investment for its own account and not with a view to, or for sale or resale in connection with, any distribution thereof which would require registration under the Securities Act or any state securities laws.
6. It understands that the Transferred Warrant and any Common Stock issuable upon exercise thereof have not been registered under applicable state or federal securities laws by reason of certain exemptions from the registration provisions thereof which depend upon, among other things, the *bona fide* nature of its representations and investment intent as expressed herein. The Company has not agreed to register the

Transferred Warrant or any of the shares of Common Stock issuable upon the exercise of the Transferred Warrant for distribution in accordance with the provisions of the Securities Act or applicable state securities laws, or agreed to comply with any exemption from registration under the Securities Act or applicable state securities laws for the resale of such shares. It understands that by virtue of the provisions of certain rules respecting "restricted securities" promulgated by the Securities and Exchange Commission, the shares of Common Stock issuable upon the exercise of the Transferred Warrant shall be required to be held indefinitely, unless and until registered under the Securities Act and applicable state securities laws, or unless an exemption from the registration requirements of the Securities Act and applicable state securities laws is available, in which case it may still be limited as to the number of such shares that may be sold. It agrees that the Transferred Warrant will not be offered, sold or transferred except as permitted by the terms of the Transferred Warrant and the Subscription Agreement.

Unless the Transferred Warrant or the Common Stock issuable upon exercise of the Transferred Warrant are sold pursuant to a registration statement under the Securities Act, the Transferred Warrant and the certificates representing or statements evidencing the Common Stock issuable upon exercise of the Transferred Warrant, as applicable, will bear a conspicuous legend in substantially the form set forth below:

[NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS WARRANT NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN][THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN] REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL SELECTED BY THE HOLDER, IN A FORM REASONABLY SATISFACTORY TO THE COMPANY, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT.

If Holder is a Canadian Subscriber or otherwise subject to the Canadian Securities Laws, Holder understands and acknowledges that this Warrant and any Shares issuable upon the exercise of this Warrant issued before the date that is four months and one day from the Issue Date, shall bear a restrictive legend in substantially the following form:

CANADIAN RESALE RESTRICTION APPLICABLE TO A CANADIAN SUBSCRIBERS ONLY: UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE NOVEMBER 1, 2022.

7. It has not been offered the Transferred Warrant by any form of general solicitation or advertising, including, but not limited to, advertisements, articles, notices or other communications published in any newspaper, magazine, or other similar media or television or radio broadcast or any seminar or meeting where, to its knowledge, those individuals that have attended have been invited by any such or similar means of general solicitation or advertising.
8. Its principal place of business is as set forth on the signature page to this letter under the heading "Principal Place of Business".
9. Its EIN and its address and email address for notices under the Transferred Warrant that should be included as its record address, are as set forth on the signature page to this letter under the heading "Notice Information".

10. To the extent the Transferred Warrant subject to the Transfer is not covered under an effective registration statement under the Securities Act, the Transferee will provide, and will cause the Transferor to provide, such information, confirmations and documentation, as may be reasonably requested by the Company and its legal counsel, in order to confirm that an exemption from registration exists for the Transfer and will provide any required legal opinions to the Company and its transfer agent in connection therewith.

The undersigned Transferee acknowledges that the Company and its representatives (including its attorneys) will be relying (and authorizes the Company and its representatives (including its attorneys) to rely) upon the representations set forth above for all purposes, including in connection with the delivery of any required legal opinions.

[The Remainder of this Page Left Blank]

Very truly yours,

[TRANSFEREE]

By: _____

Name:

Title:

Principal Place of Business:

[ADDRESS]

[ADDRESS]

[ADDRESS]

Address, contact and phone number, for delivery of Transferred Warrant:

[ATTN]

[ADDRESS]

[ADDRESS]

[ADDRESS]

[PHONE NUMBER]

Notice Information:

[ADDRESS]

[ADDRESS]

[ADDRESS]

Attn:

Email:

EIN:

[Signature Page to Transferee Representation Letter]

Schedule I

Transferor	Transferee	Transferred Warrant

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(a) OR 15d-14(a)**

I, Abner Kurtin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ascend Wellness 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) 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) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
 - 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(s) 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.

August 15, 2022

/s/ Abner Kurtin

Abner Kurtin
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(a) OR 15d-14(a)**

I, Daniel Neville, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ascend Wellness 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) 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) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
 - 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(s) 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.

August 15, 2022

/s/ Daniel Neville

Daniel Neville
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATIONS PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(b) OR 15d-14(b) AND
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Ascend Wellness Holdings, Inc. (the "Company") for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Abner Kurtin, Chief Executive Officer of the Company, and Daniel Neville, Chief Financial Officer of the Company, each certifies for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 15, 2022

/s/ Abner Kurtin
Abner Kurtin
Chief Executive Officer
(Principal Executive Officer)

August 15, 2022

/s/ Daniel Neville
Daniel Neville
Chief Financial Officer
(Principal Financial Officer)