

NOTICE TO READER

These interim condensed consolidated financial statements have not been audited or reviewed by the Company's auditor. They do not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019 and any public announcements made by Acreage Holdings, Inc. (the "Company") during the interim reporting period.

As of June 30, 2019, Acreage Holdings, Inc. (the "Company") determined that it no longer qualified as a "foreign private issuer" as such term is defined in Rule 405 under the U.S. Securities Act of 1933, as amended, which means that the Company, as of January 1, 2020, has been required to comply with all of the periodic disclosure and current reporting requirements of the U.S. Securities Exchange Act of 1934 applicable to U.S. domestic issuers, such as Forms 10-K, 10-Q and 8-K, rather than the forms the Company had filed with the Securities and Exchange Commission ("SEC") in the past as a foreign private issuer, such as Forms 40-F and 6-K.

The Company is accordingly now required to prepare its financial statements filed with the SEC in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). As required pursuant to section 4.3(4) of National Instrument 51-102 - Continuous Disclosure Obligations, the Company must restate its interim financial reports for the fiscal year ended December 31, 2019 in accordance with U.S. GAAP, such interim financial reports having previously been prepared in accordance with the International Financial Reporting Standards.

The attached condensed consolidated financial statements (unaudited) as of and for the three months ended March 31, 2019 and 2018 have been prepared in accordance with U.S. GAAP.

FINANCIAL INFORMATION

Financial Statements

ACREAGE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited)

(in thousands)	March 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	\$ 64,183	\$ 104,943
Restricted cash	95	95
Short-term investments	74,822	149,090
Inventory	11,171	8,857
Notes receivable, current	8,329	3,114
Other current assets	3,191	2,716
Total current assets	161,791	268,815
Long-term investments	4,027	3,844
Notes receivable, non-current	36,037	27,431
Capital assets, net	54,057	45,043
Operating lease right-of-use assets	11,105	—
Intangible assets, net	255,827	153,953
Goodwill	39,906	32,116
Deferred acquisition costs and deposits	2,376	22,100
Other non-current assets	1,722	1,280
Total non-current assets	405,057	285,767
TOTAL ASSETS	\$ 566,848	\$ 554,582
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 6,421	\$ 5,337
Taxes payable	2,502	962
Interest payable	293	541
Operating lease liability, current	745	—
Debt, current	7,528	15,144
Other current liabilities	2,611	10,875
Total current liabilities	20,100	32,859
Debt, non-current	868	491
Operating lease liability, non-current	10,794	—
Deferred tax liability	54,146	33,827
Other liabilities	1,069	1,129
Total non-current liabilities	66,877	35,447
TOTAL LIABILITIES	86,977	68,306
Common stock, no par value - unlimited authorized, 80,220 and 79,164 issued and outstanding, respectively	—	—
Additional paid-in capital	438,796	414,757
Treasury stock, 842 SVS held in treasury	(21,054)	(21,054)
Accumulated deficit	(61,726)	(38,349)
Total Acreage Shareholders' equity	356,016	355,354
Non-controlling interests	123,855	130,922
TOTAL EQUITY	479,871	486,276
TOTAL LIABILITIES AND EQUITY	\$ 566,848	\$ 554,582

See accompanying notes to unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(in thousands, except per share amounts)	Three Months Ended March 31,	
	2019	2018
Retail revenue, net	\$ 9,909	\$ 2,197
Wholesale revenue, net	2,815	—
Other revenue, net	173	—
Total revenues, net	12,897	2,197
Cost of goods sold, retail	(5,881)	(1,289)
Cost of goods sold, wholesale	(1,696)	(67)
Total cost of goods sold	(7,577)	(1,356)
Gross profit	5,320	841
OPERATING EXPENSES		
General and administrative	10,158	1,796
Compensation expense	6,489	2,368
Equity-based compensation expense	18,977	501
Marketing	801	204
Depreciation and amortization	908	10
Total operating expenses	37,333	4,879
Net operating loss	\$ (32,013)	\$ (4,038)
Income from investments, net	2,727	218
Interest income from loans receivable	730	91
Interest expense	(118)	(1,051)
Other income (loss), net	92	(42)
Total other income (loss)	3,431	(784)
Loss before income taxes	\$ (28,582)	\$ (4,822)
Income tax expense	(2,222)	(170)
Net loss	\$ (30,804)	\$ (4,992)
Less: net loss attributable to non-controlling interests	(7,427)	(156)
Net loss attributable to Acreage Holdings, Inc.	\$ (23,377)	\$ (4,836)
Net loss per share attributable to Acreage Holdings, Inc. - basic and diluted:	\$ (0.29)	\$ (0.10)
Weighted average shares outstanding - basic and diluted	79,440	49,661

See accompanying notes to unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)

(Expressed in \$000's USD)	Attributable to members of the parent							Non-controlling interests	Total Equity
	Membership Units	Pubco Shares (as converted)	Common Stock/APIC	Treasury Stock	Accumulated Deficit	Shareholders' Equity			
December 31, 2017	49,375	—	29,454	\$ —	\$ (10,861)	\$ 18,593	\$ 10,030	\$ 28,623	
Class C profits interests vested	1,612	—	501	—	—	501	—	501	
Interest expense settled with PIK units	74	—	356	—	—	356	—	356	
Capital contributions, net	—	—	—	—	—	—	2,750	2,750	
Purchase of non-controlling interests	—	—	(1,453)	—	—	(1,453)	952	(501)	
Net loss	—	—	—	—	(4,836)	(4,836)	(156)	(4,992)	
March 31, 2018	51,061	—	28,858	\$ —	\$ (15,697)	\$ 13,161	\$ 13,576	\$ 26,737	

(Expressed in \$000's USD)	Attributable to members of the parent							Non-controlling interests	Total Equity
	Membership Units	Pubco Shares (as converted)	Common Stock/APIC	Treasury Stock	Accumulated Deficit	Shareholders' Equity			
December 31, 2018	—	79,164	\$ 414,757	\$(21,054)	\$ (38,349)	\$ 355,354	\$ 130,922	\$ 486,276	
Issuances for business acquisitions/purchases of intangible assets	—	211	3,948	—	—	3,948	4,000	7,948	
NCI adjustments for changes in ownership	—	643	3,640	—	—	3,640	(3,640)	—	
Other equity transactions	—	12	264	—	—	264	—	264	
Equity-based compensation expense and related issuances	—	190	16,187	—	—	16,187	—	16,187	
Net loss	—	—	—	—	(23,377)	(23,377)	(7,427)	(30,804)	
March 31, 2019	—	80,220	\$ 438,796	\$(21,054)	\$ (61,726)	\$ 356,016	\$ 123,855	\$ 479,871	

See accompanying notes to unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands)	Three Months Ended March 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (30,804)	\$ (4,992)
Adjustments for:		
Depreciation and amortization	908	10
Equity-settled expenses, including compensation	18,977	816
Non-cash interest expense	—	623
Non-cash operating lease expense	434	—
Deferred tax (income) expense	409	—
Non-cash income from investments, net	(2,182)	(38)
Other non-cash (income) expense, net	—	(3)
Change, net of acquisitions in:		
Inventory	(1,694)	(169)
Other assets	(505)	227
Interest receivable	(1,153)	(91)
Accounts payable and accrued liabilities	559	(4,128)
Taxes payable	1,538	167
Interest payable	(248)	283
Other liabilities	131	(1,250)
Net cash provided by (used in) operating activities	<u>\$ (13,630)</u>	<u>\$ (8,545)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of capital assets	\$ (8,288)	\$ (2,687)
Investments in notes receivable	(8,629)	(525)
Collection of notes receivable	2,835	250
Cash paid for long-term investments	—	(480)
Proceeds from sale of capital assets	162	—
Business acquisitions, net of cash acquired	(20,770)	—
Purchases of intangible assets	(56,497)	—
Deferred acquisition costs and deposits	(300)	(250)
Distributions from investments	—	49
Proceeds from (purchase of) short-term investments	74,768	—
Net cash provided by (used in) investing activities	<u>\$ (16,719)</u>	<u>\$ (3,643)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Settlement of taxes withheld	(2,790)	—
Purchase of non-controlling interest	—	(400)
Repayment of debt	(7,621)	(5)
Capital contributions (distributions) - non-controlling interests, net	—	2,750
Net cash provided by (used in) financing activities	<u>\$ (10,411)</u>	<u>\$ 2,345</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ (40,760)</u>	<u>\$ (9,843)</u>
Cash, cash equivalents and restricted cash - Beginning of period	105,038	16,500
Cash, cash equivalents and restricted cash - End of period	<u>\$ 64,278</u>	<u>\$ 6,657</u>

See accompanying notes to unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands)	Three Months Ended March	
	2019	2018
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid - non-lease	\$ 354	\$ 145
Income taxes paid	273	—
OTHER NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Capital assets not yet paid for	\$ 380	\$ —
Receipt of capital assets previously paid for	—	147
Capital assets not yet received	380	—
Issuance of Class D units for land	264	—

See accompanying notes to unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data, unaudited)

1. NATURE OF OPERATIONS

Acreage Holdings, Inc. (the “Company”, “Pubco” or “Acreage”) was originally incorporated under the Business Corporations Act (Ontario) on July 12, 1989 as Applied Inventions Management Inc. On August 29, 2014, the Company changed its name to Applied Inventions Management Corp. The Company continued into British Columbia and changed its name to Acreage Holdings, Inc. on November 9, 2018. The Company’s Subordinate Voting Shares are listed on the Canadian Securities Exchange under the symbol “ACRG.U”, quoted on the OTCQX under the symbol “ACRGF” and traded on the Frankfurt Stock Exchange under the symbol “0VZ”. The Company owns, manages and operates cannabis cultivation facilities, dispensaries and other cannabis-related companies across the United States (“U.S.”).

High Street Capital Partners, LLC, a Delaware limited liability company doing business as Acreage Holdings (“HSCP”), was formed on April 29, 2014. The Company became the indirect parent of HSCP on November 14, 2018 in connection with a reverse takeover (“RTO”) transaction.

The comparative amounts presented for the three months ended March 31, 2018 are those of HSCP.

The Company’s corporate office and principal place of business is located at 366 Madison Avenue, 11th Floor, New York, New York in the U.S. The Company’s registered and records office address is Suite 2800, Park Place, 666 Burrard Street, Vancouver, British Columbia in Canada.

The Company’s significant accounting policies are disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, dated and filed on May 29, 2020 with the U.S. Securities and Exchange Commission.

Unaudited Interim Condensed Consolidated Financial Information

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company after elimination of all intercompany accounts and transactions. All adjustments necessary for the fair presentation of the Company’s condensed consolidated financial statements for the periods have been reflected. The accompanying year-end condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company’s financial position as of March 31, 2019 and December 31, 2018 and the results of its operations for the three months ended March 31, 2019 and 2018 and its cash flows for the three months ended March 31, 2019 and 2018. The results for the three months ended March 31, 2019 are not necessarily indicative of results to be expected for the year ending December 31, 2019, any other interim periods or any future year or period.

2. SIGNIFICANT ACCOUNTING POLICIES

Going concern

The Company’s consolidated financial statements have been prepared on a going concern basis which implies we will continue to meet our obligations for the next twelve months as of the date these financial statements are issued.

As reflected in the financial statements for the year ended December 31, 2019, the Company had an accumulated deficit and a negative net working capital (current liabilities greater than current assets) as of December 31, 2019, as well as a net loss and negative cash flow from operating activities for the reporting period then ended. These factors raise substantial doubt about the Company’s ability to continue as a going concern for at least one year from the issuance of these financial statements.

However, management believes that substantial doubt of our ability to meet our obligations for the next twelve months from the date these financial statements were issued has been alleviated due to, but not limited to, (i) capital raised between January and March 2020, (ii) access to future capital commitments (see Note 17), (iii) continued sales growth from our consolidated operations, (iv) latitude as to the timing and amount of certain operating expenses as well as capital expenditures, (v) restructuring plans that have already been put in place to improve the Company’s profitability, and (vi) the Standby Equity Distribution Agreement described in Note 15 of the Consolidated Financial Statements.

If the Company is unable to raise additional capital whenever necessary, it may be forced to decelerate or curtail its footprint buildout or other operational activities until such time as additional capital becomes available. Such limitation of the Company’s activities would allow it to slow its rate of spending and extend its use of cash until additional capital is raised. However, management

ACREAGE HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data, unaudited)

cannot provide any assurances that we will be successful in accomplishing any of our plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur at any time within the next twelve months or thereafter which could increase our need to raise additional capital on an immediate basis.

Use of estimates

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Preparation of financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the dates presented and the reported amounts of revenues and expenses during the periods presented. Significant estimates inherent in the preparation of the accompanying condensed consolidated financial statements include the fair value of assets acquired and liabilities assumed in business combinations, assumptions relating to equity-based compensation expense, estimated useful lives for property, plant and equipment and intangible assets, the valuation allowance against deferred tax assets and the assessment of potential impairment charges on goodwill, intangible assets and investments in equity and notes receivable.

Functional and presentation currency

The consolidated financial statements and the accompanying notes are expressed in U.S. dollars. Financial metrics are presented in thousands. Other metrics, such as shares outstanding, are presented in thousands unless otherwise noted.

Basis of consolidation

Our condensed consolidated financial statements include the accounts of Acreage, its subsidiaries and variable interest entities (“VIEs”) where we are considered the primary beneficiary, if any, after elimination of intercompany accounts and transactions. Investments in business entities in which Acreage lacks control but is able to exercise significant influence over operating and financial policies are accounted for using the equity method. Our proportionate share of net income or loss of the entity is recorded in *Income (loss) from investments, net* in the Consolidated Statements of Operations.

Revenue recognition

The Company early adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) on January 1, 2018. The new standard provides for a single model that applies to all contracts with customers with two types of recognition: at a point in time or over time. The Company has applied Topic 606 retrospectively for all periods presented and determined that there is no change to the comparative periods or transitional adjustments required as a result of adoption. The Company’s accounting policy for revenue recognition under Topic 606 is as follows:

1. Identify the contract with a customer;
2. Identify the performance obligation(s);
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s);
5. Recognize revenue when/as performance obligation(s) are satisfied.

Revenue from the direct sale of cannabis to customers for a fixed price is recognized when the Company transfers control of the good to the customer. The Company disaggregates its revenues from the direct sale of cannabis to customers on the Statements of Operations as *Retail revenue, net* and *Wholesale revenue, net*.

Revenue from management contracts is recognized over time as the management services are provided. The Company provides management services to other cannabis companies for a fee structure that varies based on the contract. The services that may be provided are broadly defined and span the entire scope of the business. The Company evaluates the nature of its promise to the customer in these contracts and determines that its promise is to provide a management service. The service comprises various activities that may vary each day (such as support for cultivation, finance, accounting, human resources, retail, etc.). The Company disaggregates its management contract revenue on the Statements of Operations as *Other revenue, net*.

Amounts disclosed as revenue are net of allowances, discounts and rebates.

Inventory

The Company’s inventories include the direct costs of seeds and growing materials, indirect costs such as utilities, labor, depreciation and overhead costs, and subsequent costs to prepare the products for ultimate sale, which include direct costs such as materials and indirect costs such as utilities and labor. All direct and indirect costs related to inventory are capitalized when they are incurred, and they are subsequently classified to Cost of goods sold in the Consolidated Statements of Operations. Inventory is valued at the lower of cost and net realizable value, defined as estimated selling price in the ordinary cost of business, less costs of disposal.

ACREAGE HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data, unaudited)

The Company measures inventory cost using specific identification for its retail inventory and the average cost method for its cultivation inventory.

Loss per share

Net loss per share represents the net loss attributable to shareholders divided by the weighted average number of shares outstanding during the period on an as converted basis. Basic and diluted loss per share are the same as of March 31, 2019 and 2018, as the issuance of shares upon conversion, exercise or vesting of outstanding units would be anti-dilutive in each period. There were 37,588 and 2,323 anti-dilutive shares outstanding as of March 31, 2019 and 2018, respectively.

ACREAGE HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data, unaudited)

3. ACQUISITIONS

During the three months ended March 31, 2019, the Company completed the following business combinations, and has allocated each purchase price as follows:

Purchase Price Allocation	Thames Valley (1)	NCC (2)	Total
Assets acquired:			
Cash and cash equivalents	\$ 106	\$ 696	\$ 802
Inventory	39	170	209
Other current assets	1	36	37
Capital assets, net	—	539	539
Goodwill	3,594	4,196	7,790
Intangible assets - cannabis licenses	14,850	2,500	17,350
Other non-current assets	—	25	25
Liabilities assumed:			
Accounts payable and accrued liabilities	(121)	(24)	(145)
Other current liabilities	—	(621)	(621)
Deferred tax liability	(3,397)	(465)	(3,862)
Other liabilities	—	(175)	(175)
Fair value of net assets acquired	\$ 15,072	\$ 6,877	\$ 21,949
Consideration paid:			
Cash	\$ 15,072	\$ —	\$ 15,072
Deferred acquisition costs and deposits	—	100	100
Subordinate Voting Shares	—	3,948	3,948
Settlement of pre-existing relationship	—	830	830
Fair value of previously held interest	—	1,999	1,999
Total consideration	\$ 15,072	\$ 6,877	\$ 21,949
Subordinate Voting Shares issued	—	211	211

The operating results of the above acquisitions were not material to the periods presented.

(1) On January 29, 2019, the Company acquired 100% of Thames Valley Apothecary, LLC (“Thames Valley”), a dispensary license holder in Connecticut.

(2) On March 4, 2019, the Company acquired the remaining 70% ownership interest in NCC LLC (“NCC”), a dispensary license holder in Illinois. The market price used in valuing SVS issued was \$18.70 per share. As a result of this acquisition, the previously held interest in NCC was re-measured, resulting in a gain of \$999, which was recorded in *Income from investments, net* in the Consolidated Statements of Operations during the three months ended March 31, 2019.

The settlement of pre-existing relationship included in the transaction price includes a \$550 promissory note receivable as well as an amount receivable of \$280 which was previously recorded in *Other current assets* in the unaudited Condensed Interim Consolidated Statements of Financial Position. The carrying value of these amounts approximated their fair value.

During the three months ended March 31, 2018, the Company did not complete any business combinations.

Deferred acquisition costs and deposits

The Company makes advance payments to certain acquisition targets for which the transfer is pending certain regulatory approvals prior to the acquisition date.

ACREAGE HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data, unaudited)

As of March 31, 2019 and December 31, 2018, the Company had the following deferred acquisition costs and deposits, which are expected to be offset against the consideration payable for the related future purchases.

Acquisition Target	March 31, 2019	December 31, 2018
Nature's Way Nursery of Miami, Inc.	\$ —	\$ 12,000
Form Factory ⁽¹⁾	2,076	10,000
Deposit on capital asset purchase	300	—
NCC	—	100
Deferred acquisition costs and deposits	\$ 2,376	\$ 22,100

(1) Form Factory drew down on the Company's deferred acquisition deposit during the three months ended March 31, 2019.

4. INTANGIBLE ASSETS AND GOODWILL

Intangible assets

The following table details our intangible asset balances by major asset classes:

Intangibles	March 31, 2019	December 31, 2018
Finite-lived intangible assets:		
Management contracts	\$ 68,384	\$ 68,384
	<u>68,384</u>	<u>68,384</u>
Accumulated amortization on finite-lived intangible assets:		
Management contracts	(3,789)	(3,128)
	<u>(3,789)</u>	<u>(3,128)</u>
Finite-lived intangible assets, net	64,595	65,256
Indefinite-lived intangible assets		
Cannabis licenses	191,232	88,697
Total intangibles, net	\$ 255,827	\$ 153,953

Impairment of intangible assets

The Company recorded no impairment of cannabis licenses and no impairment on management contracts during the three months ended March 31, 2019 and three months ended March 31, 2018.

Purchases of intangible assets

The Company determined that the following purchase of intangible assets did not qualify as business combinations as the entities were non-operational at the time of purchase.

2019

- On January 4, 2019, the Company purchased a vertically-integrated license in Florida to operate a cultivation and processing facility and up to 40 medical cannabis dispensaries by acquiring Acreage Florida, Inc. (formerly known as Nature's Way Nursery of Miami, Inc.). Total consideration of \$69,747 included: (i) \$53,747 in cash, (ii) \$12,000 of previously-paid deferred acquisition costs and (iii) \$4,000 in HSCP units (198 units). The HSCP units issued were valued based on the market price of SVS (for which HSCP units are convertible) at the transaction date, which was \$20.20 per share. In addition to the intangible asset purchased, the Company also acquired \$361 of equipment, recorded in *Capital assets, net* and a \$250 surety bond, recorded in *Other non-current assets* in the Consolidated Statements of Financial Position. A deferred tax liability of \$16,049 was also recorded in connection with this purchase.

ACREAGE HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data, unaudited)

Amortization expense recorded during the three months ended March 31, 2019 and 2018 was \$661 and \$0 respectively.

Expected annual amortization expense for existing intangible assets subject to amortization at March 31, 2019 is as follows for each of the next five fiscal years:

Amortization of Intangibles	2019	2020	2021	2022	2023	Thereafter
Amortization expense	\$ 4,140	\$ 5,520	\$ 5,520	\$ 5,520	\$ 5,520	\$ 38,375

Goodwill

The following table details the changes in the carrying amount of goodwill:

Goodwill	Total
December 31, 2018	\$ 32,116
Acquisitions	7,790
March 31, 2019	\$ 39,906

5. INVESTMENTS

The carrying values of the Company's investments in the Consolidated Statements of Financial Position as of March 31, 2019 and December 31, 2018 are as follows:

Investments	March 31, 2019	December 31, 2018
Total short-term investments	\$ 74,822	\$ 149,090
Investments held at FV-NI	4,027	2,869
Equity method investments	—	975
Total long-term investments	\$ 4,027	\$ 3,844

Income from investments, net in the Consolidated Statements of Operations during the three months ended March 31, 2019 and 2018 is as follows:

Investment income	Three Months Ended March 31,	
	2019	2018
Short-term investments	\$ 500	\$ —
Investments held at FV-NI	1,203	180
Equity method investments	1,024	38
Income from investments, net	\$ 2,727	\$ 218

Income from investments without readily determinable fair value for the three months ended March 31, 2018 primarily resulted from the remeasurement of previously held investments at the time of acquisition, in which the Company previously had an investment carried at cost (prior to January 1, 2018) or for which the measurement alternative was elected (January 1, 2018 and beyond), as further discussed in Note 3.

Income from equity method investments for the three months ended March 31, 2018 was primarily driven by the remeasurement of previously held investments at the time of acquisition, as further discussed in Note 3.

Short-term investments

The Company from time to time invests in U.S. Treasury bills which are classified as held-to-maturity and measured at amortized cost. These range in original maturity from three to six months, and bear interest ranging from 2.2% - 2.4%. During the three months ended March 31, 2019, short-term investments in U.S. Treasury bills in the amount of \$74,768 matured.

ACREAGE HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data, unaudited)

Investments in equity without readily determinable fair value (formerly cost method investments)

The Company adopted ASU 2016-01 on January 1, 2018. Prior to adoption, investments in equity securities that did not give the Company significant influence over the investee were classified as cost method investments and held at their initial cost, assessed periodically for impairment. Upon adoption of ASU 2016-01, the Company elected to use the available measurement alternative for investments without readily determinable fair values (which are classified as Level 3 investments in the fair value hierarchy). The measurement alternative requires the investments to be held at cost and adjusted for impairment and observable price changes, if any.

Investments held at FV-NI

The Company has investments in equity of several companies that do not result in significant influence or control. These investments are carried at fair value, with gains and losses recognized in the Consolidated Statements of Operations.

Equity method investments

The Company accounts for investments in which it can exert significant influence but does not control as equity method investments. As of March 31, 2019 and December 31, 2018, the Company's equity method investments were not deemed significant to the Company's financial statements and as such, additional disclosure is omitted. The Company purchased the remaining interests in the majority of its equity method investments during the year ended December 31, 2018. Refer to Notes 3 and 4 for further discussion.

6. CAPITAL ASSETS, net

Net property and equipment consisted of:

	March 31, 2019	December 31, 2018
Land	\$ 8,697	\$ 6,241
Building	15,624	14,364
Right-of-use asset, finance leases	383	—
Construction in progress	6,201	5,569
Furniture, fixtures and equipment	10,399	8,156
Leasehold improvements	14,798	12,115
Capital assets, gross	\$ 56,102	\$ 46,445
Less: accumulated depreciation	(2,045)	(1,402)
Capital assets, net	\$ 54,057	\$ 45,043

Depreciation of capital assets for the three months ended March 31, 2019 and 2018 includes \$247 and \$10 of depreciation expense, and \$410 and \$60 that was capitalized to inventory, respectively.

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7. LEASES

The Company adopted ASC 842 on January 1, 2019 by capitalizing operating and finance right-of-use assets totaling \$11,718 and \$383, respectively. The Company leases land, buildings, equipment and other capital assets which it plans to use for corporate purposes and the production and sale of cannabis products. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and are expensed in the Consolidated Statements of Operations on the straight-line basis over the lease term. The Company does not have any material variable lease payments, and accounts for non-lease components separately from leases.

Balance Sheet Information	Classification	March 31, 2019
Right-of-use assets		
Operating	Operating lease right-of-use assets	\$ 11,105
Finance	Capital assets, net	381
Total right-of-use assets		\$ 11,486
Lease liabilities		
Current		
Operating	Operating lease liability, current	\$ 745
Financing	Debt, current	—
Non-current		
Operating	Operating lease liability, non-current	10,794
Financing	Debt, non-current	382
Total lease liabilities		\$ 11,921

Statement of Operations Information	Classification	Three Months Ended March 31, 2019
Short-term lease expense	General and administrative	\$ 298
Operating lease expense	General and administrative	956
Finance lease expense:		
Amortization of right of use asset	Depreciation and amortization	2
Interest expense on lease liabilities	Interest expense	12
Sublease income	Other income (loss), net	(43)
Net lease cost		\$ 927

Statement of Cash Flows Information	Classification	Three Months Ended March 31, 2019
Cash paid for operating leases	Net cash provided by (used in) operating activities	\$ 522
Cash paid for finance leases - interest	Net cash provided by (used in) operating activities	\$ 12

The Company's rent expense during the three months ended March 31, 2018 was \$205.

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The following represents the Company's future minimum payments required under existing leases with initial terms of one year or more as of March 31, 2019:

Maturity of lease liabilities	Operating Leases	Finance Leases
2019	\$ 1,547	\$ 38
2020	2,064	50
2021	2,043	50
2022	2,004	50
2023	1,954	50
Thereafter	10,788	4,700
Total lease payments	\$ 20,400	\$ 4,938
Less: interest	8,861	4,556
Present value of lease liabilities	\$ 11,539	\$ 382
Weighted average remaining lease term (years)	9	99
Weighted average discount rate	12%	13%

8. INVENTORY

	March 31, 2019	December 31, 2018
Retail inventory	\$ 1,672	\$ 1,101
Wholesale and cultivation inventory	8,727	7,248
Supplies & other	772	508
Total	\$ 11,171	\$ 8,857

9. DEBT

The Company's debt balances consisted of the following:

Debt balances	March 31, 2019	December 31, 2018
NCCRE loan	\$ 507	\$ 511
Seller's notes	7,507	15,124
Finance lease liabilities	382	—
Total debt	\$ 8,396	\$ 15,635
Less: current portion of debt	7,528	15,144
Total long-term debt	\$ 868	\$ 491

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The interest expense related to the Company's debt during the three months ended March 31, 2019 and 2018 consisted of the following:

Interest Expense	Three Months Ended March 31,	
	2019	2018
Convertible notes:		
Cash interest	\$ —	\$ 425
PIK interest	—	357
Accretion	—	266
Convertible note interest	\$ —	\$ 1,048
NCCRE loan	5	3
Seller's notes	101	—
Interest expense on finance lease liability	12	—
Total interest expense	\$ 118	\$ 1,051

Senior secured convertible notes

The Company issued senior secured convertible notes in November 2017 for a total principal amount of \$31,294, net of issuance costs. The debt contained a conversion feature and attached warrants, neither of which met the criteria for bifurcation. In connection with the RTO on November 14, 2018, the notes and PIK interest mandatorily converted to 6,473 Class A membership units, and the Company issued 1,878 warrants to purchase Pubco shares at \$25 per share, which expire on November 14, 2021. The carrying value of the debt, including unamortized discount, was credited to *Share capital* in the Consolidated Statements of Shareholders' Equity and no gain or loss was recognized.

NCC Real Estate, LLC ("NCCRE") loan

NCCRE, which is owned by the Company's consolidated subsidiary HSC Solutions, LLC, entered into a \$550 secured loan with a financial institution for the purchase of a building in Rolling Meadows, Illinois in December 2016. The building is leased to NCC. The promissory note payable carries a fixed interest rate of 3.7% and is due in December 2021.

Seller's notes

The Company issued Seller's notes payable in connection with several transactions, bearing interest at rates ranging from 3.5% to 10%. Substantially all of these notes became due upon completion of the RTO.

10. SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

The table below details the change in Pubco shares outstanding by class:

Shareholders' Equity	Subordinate Voting Shares	Subordinate Voting Shares Held in Treasury	Proportionate Voting Shares (as converted)	Multiple Voting Shares	Total Shares Outstanding
December 31, 2018	21,943	(842)	57,895	168	79,164
Issuances	413	—	—	—	413
NCI conversions	643	—	—	—	643
PVS conversions	21,472	—	(21,472)	—	—
March 31, 2019	44,471	(842)	36,423	168	80,220

Warrants

A summary of the warrants activity outstanding is as follows:

Warrants	Three Months Ended March 31, 2019
Beginning balance	2,259
Granted	—
Expired	—
Ending balance	2,259

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During the three months ended March 31, 2019, the Company did not issue any warrants.

The exercise price of all warrants outstanding as of March 31, 2019 was \$25 per share, and the weighted-average remaining contractual life of the warrants outstanding is approximately 2 years. There was no aggregate intrinsic value for warrants outstanding as of March 31, 2019.

Non-controlling interests - convertible units

The Company has NCIs in consolidated subsidiaries USCo2 and HSCP. The non-voting shares of USCo2 and HSCP units make up substantially all of the NCI balance as of March 31, 2019 and are convertible at the Company's discretion into either one Subordinate Voting Share of Pubco or cash, as determined by the Company. Summarized financial information of HSCP is presented below. USCo2 does not have discrete financial information separate from HSCP.

HSCP net asset reconciliation	March 31, 2019	December 31, 2018
Current assets	\$ 161,791	\$ 268,817
Non-current assets	381,438	282,058
Current liabilities	(18,188)	(32,626)
Non-current liabilities	(12,978)	(1,622)
Other NCI balances	(1,114)	(1,130)
Accumulated equity-settled expenses	(28,855)	(9,878)
Net assets	\$ 482,094	\$ 505,619
HSCP/USCo2 ownership % of HSCP	25.46%	25.67%
Net assets allocated to USCo2/HSCP	\$ 122,741	\$ 129,792
Net assets attributable to other NCIs	1,114	1,130
Total NCI	\$ 123,855	\$ 130,922

HSCP Summarized Statement of Operations	Three Months Ended March 31,	
	2019	2018
Net loss allocable to HSCP/USCo2	\$ (28,958)	\$ —
HSCP/USCo2 weighted average ownership % of HSCP	25.63%	—%
Net loss allocated to HSCP/USCo2	\$ (7,422)	\$ —
Net loss allocated to other NCIs	(5)	(156)
Net loss attributable to NCIs	\$ (7,427)	\$ (156)

As of March 31, 2019, USCo2's non-voting shares owned approximately 1.32% of HSCP units. USCo2's capital structure is comprised of voting shares (approximately 41%), all of which are held by the Company, and of non-voting shares (approximately 59%) held by certain former HSCP members. Certain executive employees and profits interests holders own approximately 24.14% of HSCP units. The remaining 74.54% interest in HSCP is held by USCo and represents the members' equity attributable to shareholders of the parent.

During the three months ended March 31, 2019, the Company had several transactions with HSCP and USCo2 that changed its ownership interest in the subsidiaries but did not result in loss of control. These transactions included business acquisitions and intangible purchases where equity was issued as consideration (see Notes 4 and 5) and the redemption of HSCP and USCo2 convertible units for Pubco shares (as shown in the table below), and resulted in a \$3,640 allocation from NCI to shareholders' equity.

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A reconciliation of the beginning and ending amounts of convertible units is as follows:

Convertible Units	Three Months Ended March 31, 2019
Beginning balance	27,340
Issuance of NCI units	198
Vested LLC C-1s canceled	(123)
LLC C-1s vested	625
NCI units converted to Pubco	(643)
Ending balance	27,397

Other non-controlling interests

During the three months ended March 31, 2018, the Company purchased additional interests in consolidated subsidiaries.

2018 NCI purchases	Total
Cash	\$ 400
Forgiveness of shareholder advance	100
Total consideration	\$ 500
Carrying value on transaction date	(953)
Decrease in additional paid in capital	\$ (1,453)

11. EQUITY-BASED COMPENSATION EXPENSE

Equity-based compensation expense recognized in the Consolidated Statements of Operations for the periods presented is as follows:

Equity-based compensation expense	Three Months Ended March 31,	
	2019	2018
Equity-based compensation - Plan	\$ 18,881	\$ —
Equity-based compensation - other	96	501
Total equity-based compensation expense	\$ 18,977	\$ 501

Equity-based compensation - Plan (Acreage Holdings, Inc. Omnibus Incentive Plan)

In connection with the RTO transaction, the Company's Board of Directors adopted an Omnibus Incentive Plan (the "Plan"), which permits the issuance of stock options, stock appreciation rights, stock awards, share units, performance shares, performance units and other stock-based awards up to an amount equal to 10% of the issued and outstanding Subordinate Voting Shares of the Company.

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Restricted Share Units (“RSUs”)

	Three Months Ended March 31, 2019	
	RSUs	Weighted Average Grant Date Fair Value
Restricted Share Units (Fair value information expressed in whole dollars)		
Unvested, beginning of period	2,032	\$ 24.53
Granted	132	21.24
Vested	(334)	24.45
Unvested, end of period	1,830	\$ 24.31

RSUs of the Company generally vest over a period of two years. The fair value for RSUs is based on the Company’s share price on the date of the grant. The Company recorded \$11,791 as compensation expense during the three months ended March 31, 2019. The fair value of RSUs vested during the three months ended March 31, 2019 was \$6,384.

The total weighted average remaining contractual life and aggregate intrinsic value of unvested RSUs at March 31, 2019 was approximately 2 years and \$37,552, respectively. Unrecognized compensation expense related to these awards at March 31, 2019 was \$38,761 and is expected to be recognized over a weighted average period of approximately 2 years.

In connection with the vesting of RSUs, the Company withheld 143 shares to satisfy \$2,790 of employer withholding tax requirements. Ninety-six thousand RSUs that vested in 2018 were delivered in the period, and 0 that vested in 2019 are pending delivery or deferred.

Stock options

	Three Months Ended March 31, 2019	
	Options	Weighted Average Exercise Price
Stock Options (Exercise price expressed in whole dollars)		
Options outstanding, beginning of period	4,605	\$ 25.00
Granted	357	25.00
Forfeited	(60)	25.00
Options outstanding, end of period	4,902	\$ 25.00
Options exercisable, end of period	—	\$ —

Stock options of the Company generally vest over a period of three years and have an expiration period of 10 years. The weighted average contractual life remaining for options outstanding and exercisable as of March 31, 2019 was approximately 10 years and 0, respectively. The Company recorded \$7,090 as compensation expense during the three months ended March 31, 2019, in connection with these awards. As of March 31, 2019, unamortized expense related to stock options totaled \$76,891 and is expected to be recognized over a weighted-average period of approximately 3 years. There was no aggregate intrinsic value for options outstanding or exercisable as of March 31, 2019.

Equity-based compensation - other

HSCP C-1 Profits Interests Units (“Profits Interests”)

These membership units qualify as profits interests for U.S. federal income tax purposes and were accounted for in accordance with ASC 718, Compensation - Stock Compensation. HSCP amortizes awards over service period and until awards are fully vested.

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The following table summarizes the status of unvested Profits Interests for the three months ended March 31, 2019:

	Three Months Ended March 31, 2019	
	Number of Units	Weighted Average Grant Date Fair Value
Profits Interests (Fair value information expressed in whole dollars)		
Unvested, beginning of period	1,825	\$ 0.43
Class C-1 vested	(625)	0.43
Unvested, end of period	1,200	\$ 0.43

The Company recorded \$96 and \$501 as compensation expense in connection with these awards during the three months ended March 31, 2019 and 2018, respectively. The fair value of Profits Interests vested during the three months ended March 31, 2019 and 2018 was \$11,307 and \$648, respectively.

The total weighted average remaining contractual life and aggregate intrinsic value of unvested Profits Interests at March 31, 2019 was approximately 1 year and \$24,624, respectively. As of March 31, 2019, unamortized expense related to unvested Profits Interests totaled \$373 and is expected to be recognized over a weighted average period of approximately 1 year.

12. COMMITMENTS and CONTINGENCIES

Commitments

The Company provides revolving lines of credit to several of its portfolio companies. Refer to Note 6 entitled Notes Receivable of our Annual Report on Form 10-K for the year ended December 31, 2019.

Definitive agreements

The Company entered into membership interest purchase agreements with Greenleaf, which are subject to closing conditions such as the approval of license transfers by state regulators. No contingent assets were recognized as part of this transaction.

On March 12, 2019, the Company entered into a definitive agreement to acquire Kanna, Inc., a dispensary license holder in Oakland, California, for consideration of approximately \$11,500 in Subordinate Voting Shares.

During the year ended December 31, 2018, the Company entered into a definitive agreement to acquire all ownership interests in GCCC Management, LLC, a management company overseeing the operations of Greenleaf Compassionate Care Center, Inc., a non-profit cultivation and processing facility in Rhode Island, for cash consideration of \$10,000.

The Company has indemnification obligations with respect to surety bonds primarily used as security against non-performance in the amount of \$5,000 as at March 31, 2019 which are not recorded on the unaudited Condensed Interim Consolidated Statements of Financial Position.

The Company is subject to other capital commitments and similar obligations. As of March 31, 2019 and 2018, such amounts were not material.

Contingencies

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 reasonably estimated.

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 of the Company believes that the Company is in compliance with applicable local and state regulations as of March 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

New York outstanding litigation

On November 2, 2018, EPMMNY LLC ("EPMMNY") filed a complaint in the Supreme Court of the State of New York, County of New York, asserting claims against 16 defendants, including NYCANNA, Impire State Holdings LLC, NY Medicinal Research

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& Caring, LLC (each, a wholly-owned subsidiary of High Street) and High Street. The Index Number for the action is 655480/2018. EPMMNY alleges that it was wrongfully deprived of a minority equity interest and management role in NYCANNA by its former partner, New Amsterdam Distributors, LLC, which attempted to directly or indirectly sell or transfer EPMMNY's alleged interest in NYCANNA to other entities in 2016 and 2017, including Impire, NYMRC and High Street. EPMMNY alleges that it is entitled to the value of its alleged minority interest in NYCANNA or minority ownership in NYCANNA. EPMMNY also alleges that certain defendants misused its alleged intellectual property and/or services, improperly solicited its employees, and aided and abetted or participated in the transfer of equity and/or business opportunities from EPMMNY. High Street intends to vigorously defend this action, which the Company firmly believes is without merit. EPMMNY alleges that it was improperly deprived of its equity stake in NYCANNA before NYCANNA was acquired by High Street. High Street is also entitled to full indemnity from the claims asserted against it by EPMMNY pursuant to the purchase agreement pertaining to its acquisition of NYCANNA and personal guarantee by the largest shareholders of the seller.

13. RELATED PARTY TRANSACTIONS

Transactions with related parties are entered into in the normal course of business and are measured at the amount established and agreed to by the parties.

Related party notes receivable

Acreage has certain outstanding notes receivable with related parties. Refer to Note 6 entitled Notes Receivable of our Annual Report on Form 10-K for the year ended December 31, 2019.

Other current assets

In March 2017, HSCP issued 6,000 Class C units to certain employees of HSCP in exchange for \$630 of notes receivable. These notes bear interest at 2.05% annually. \$315 was outstanding as at December 31, 2017, as HSCP forgave 50% of the amount outstanding in recognition of services performed and classified the forgiven amount as compensation expense in the year ended December 31, 2017. The remaining \$315 was forgiven and recognized as compensation expense during the three months ended March 31, 2018.

Key management personnel compensation

The Company's compensation expense related to key management personnel during the three months ended March 31, 2019 and 2018 totaled \$5,197 and \$185, respectively, which includes cash and equity-based compensation.

14. REPORTABLE SEGMENTS

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 operates under one operating segment, which is its only reportable segment: the production and sale of cannabis products. The Company's measure of segment performance is net income, and derives its revenue primarily from the sale of cannabis products, as well as related management or consulting services which were not material in all periods presented. All of the Company's operations are located in the United States.

15. SUBSEQUENT EVENTS

Acquisitions

On April 16, 2019, the Company acquired 100% of Form Factory Holdings, LLC ("Form Factory"), a manufacturer and distributor of cannabis-based edibles and beverages. The Company expects to benefit primarily from utilizing the intangible assets acquired, which include cannabis licenses in California and Oregon, existing customer relationships, and developed technology, which will complement Acreage's existing business and enable the Company to create and distribute proprietary brands of various types at scale. The useful life of the developed technology was determined to be 19 years, and the useful life of the customer relationships was determined to be 5 years.

In connection with the Company's acquisition of Form Factory, 1,369 restricted shares with a grant date fair value of \$20.45 were issued to former employees of Form Factory subject to future service conditions, which fully vest 24 months from the acquisition date. The fair value for RSs is based on the Company's share price on the date of the grant.

On July 2, 2019, the Company acquired Kanna, Inc. ("Kanna"), a dispensary license holder in Oakland, California, for total consideration of \$7,525 which included: (i) \$1,991 in cash and (ii) \$5,534 in Subordinate Voting Shares (383 shares). A deferred tax liability of \$2,316 was also recorded in connection with this purchase. The SVS issued were valued based on the market price at the transaction date, which was \$15.81 per share. Certain SVS are subject to clawback should certain indemnity conditions arise

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and as such, a discount for lack of marketability was applied that correlates to the period of time these shares are subject to restriction.

Contingencies

During the third quarter of 2019, the Company incurred consulting fees payable in SVS which are contingent upon successful acquisition of certain state cannabis licenses. The Company had maximum obligations of \$8,750 and 400 SVS, and no reserve for the contingencies has been recorded.

New York Outstanding Litigation

On November 2, 2018, EPMMNY LLC (“EPMMNY”) filed a complaint in the Supreme Court of the State of New York, County of New York, asserting claims against 16 defendants, including NYCANNA, Impire State Holdings LLC, NY Medicinal Research & Caring, LLC (each, a wholly-owned subsidiary of High Street) and High Street. The Index Number for the action is 655480/2018. EPMMNY alleges that it was wrongfully deprived of a minority equity interest and management role in NYCANNA by its former partner, New Amsterdam Distributors, LLC, which attempted to directly or indirectly sell or transfer EPMMNY’s alleged interest in NYCANNA to other entities in 2016 and 2017, including Impire, NYMRC and High Street. EPMMNY alleges that it is entitled to the value of its alleged minority interest in NYCANNA or minority ownership in NYCANNA. EPMMNY also alleges that certain defendants misused its alleged intellectual property and/or services, improperly solicited its employees, and aided and abetted or participated in the transfer of equity and/or business opportunities from EPMMNY. High Street intends to vigorously defend this action, which the Company firmly believes is without merit. EPMMNY alleges that it was improperly deprived of its equity stake in NYCANNA before NYCANNA was acquired by High Street. High Street is also entitled to full indemnity from the claims asserted against it by EPMMNY pursuant to the purchase agreement pertaining to its acquisition of NYCANNA and personal guarantee by the largest shareholders of the seller. The defendants filed a motion to dismiss on April 1, 2019. The motion was fully briefed and submitted to the Court on July 18, 2019.

Definitive Agreement - Deep Roots Medical, LLC

On April 17, 2019, the Company entered into a definitive agreement to acquire Deep Roots Medical, LLC (“Deep Roots”), a vertically integrated license holder in Nevada, for consideration of 4,762 HSCP units (valued at approximately \$28,191 based on the December 31, 2019 closing price of \$5.92 per share) and \$20,000 in cash. The Company announced the termination of the agreement by Deep Roots on April 3, 2020 following March 31, 2020, the end date for consummating the transaction. The agreement was terminated due to the ongoing moratorium imposed by the Nevada Department of Taxation. The delay prevented the parties from obtaining the consents, approvals and authorizations necessary to consummate the merger prior to the outside date provided in the agreement.

Definitive Agreement - GCCC Management, LLC

During the year ended December 31, 2018, the Company entered into a definitive agreement to acquire all ownership interests in GCCC Management, LLC, a management company overseeing the operations of Greenleaf Compassionate Care Center, Inc., a non-profit cultivation and processing facility in Rhode Island, for cash consideration of \$10,000. The agreement terminated in April 2020.

Definitive Agreement - Canopy Growth

On June 19, 2019, the shareholders of the Company and of Canopy Growth separately approved the proposed transaction between the two companies, and on June 21, 2019, the Supreme Court of British Columbia granted a final order approving the arrangement. Effective June 27, 2019, the articles of the Company were amended to provide Canopy Growth with the option (the “Canopy Growth Call Option”) to acquire all of the issued and outstanding shares in the capital of the Company (each, an “Acreage Share”), with a requirement to do so upon a change in federal laws in the United States to permit the general cultivation, distribution and possession of marijuana (as defined in the relevant legislation) or to remove the regulation of such activities from the federal laws of the United States (the “Triggering Event”), subject to the satisfaction of the conditions set out in the arrangement agreement entered into between Acreage and Canopy Growth on April 18, 2019, as amended on May 15, 2019 (the “Arrangement Agreement”). Holders of Acreage Shares and certain securities convertible or exchangeable into Class A subordinate voting shares of Acreage (the “Subordinate Voting Shares”) as of the close of business on June 26, 2019, received approximately \$2.63, being their pro rata portion (on an as converted to Subordinate Voting Share basis) of \$300,000 (the “Option Premium”) paid by Canopy Growth to such persons as consideration for granting the Canopy Growth Call Option. The Option Premium was distributed to such holders of record on or before July 3, 2019.

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Upon the occurrence of the Triggering Event, Canopy Growth is required to exercise the Canopy Growth Call Option and, subject to the satisfaction or waiver of the conditions to closing set out in the Arrangement Agreement, acquire (the “Acquisition”) each of the Subordinate Voting Shares of Acreage (following the automatic conversion of the Class B proportionate voting shares and Class C multiple voting shares of Acreage into Subordinate Voting Shares) for the payment of 0.5818 of a common share of Canopy Growth (each whole common share, a “Canopy Growth Share”) per Subordinate Voting Share (subject to adjustment in accordance with the terms of the Arrangement Agreement) (the “Exchange Ratio”).

HSCP unit holders will be required to convert their units within three years following the closing of the Arrangement as will holders of non-voting shares of USCo2.

The Company will be permitted to issue up to an additional 58,000 Subordinate Voting Shares without any adjustment being required to the Exchange Ratio. The Exchange Ratio is subject to adjustment in the circumstances set out in the Arrangement Agreement.

Equity-based compensation - Plan (CGC Awards)

On June 27, 2019, pursuant to the Arrangement Agreement, as defined above, 4,909 RSUs were awarded in total to five executive employees under the Plan. These awards vest as follows: 25% in June 2020, 25% in June 2021 and 50% three months following the Acquisition (as defined above). A discount for lack of marketability was applied that correlates to the period of time certain of these shares are subject to restriction.

On July 31, 2019, the Company issued 1,778 RSUs to employees with unvested RSUs and stock options (“make-whole awards”) as at the date of the Option Premium payment. The RSUs were issued to provide additional incentive for employees that were not eligible to receive the full Option Premium and were subject to the same vesting terms as the unvested options and RSUs held as of the grant date.

Notes Receivable

On July 1, 2019, the Company entered into a \$8,000 convertible note receivable with a west coast social equity program. Upon certain conditions related to a subsequent capital raise, the Company will obtain the right to convert its financing receivable to an ownership interest. The line of credit matures in June 2022 and bears interest at a rate of 8% per annum.

Modification of management contract

On October 7, 2019, the Company modified the terms of its Management Service Agreement (“MSA”) with Greenleaf Apothecaries, LLC (“GLA”). As a result of this modification, the Company exchanged certain future cash flows under the MSA in exchange for a note receivable of \$12,500. In connection with this modification, the Company reduced the carrying value of the MSA by \$10,106, recorded a gain of \$2,394 and reduced the associated deferred tax liability by \$2,730, with a corresponding increase to *Other equity transactions* in the Statements of Shareholders’ Equity.

Reorganization Agreement with CCF

On November 15, 2019, as a result of changes to state laws as described above, Acreage entered into a Reorganization Agreement with CCF, pursuant to which Acreage will acquire 100% of the equity interests in CCF, pending state approval. The outstanding amounts receivable under the line of credit will convert to 54% ownership, and the Company will pay \$10,000 for the remaining 46%.

Impairment of Intangible Assets

For the year ended December 31, 2019, the Company recorded \$9,514 of impairment on certain cannabis licenses and \$3,949 of impairment on management contracts resulting from its annual impairment testing.

Sale-leasebacks

During the year ended December 31, 2019, the Company sold and subsequently leased back several of its capital assets in a transaction with GreenAcreage Real Estate Corp. (“GreenAcreage”), a related party. The Company sold assets and subsequently leased them back for total proceeds of \$19,052. The subsequent leases met the criteria for finance leases, and as such, the transactions do not qualify for sale-leaseback treatment. The “sold” assets remain within land, building 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 debt

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(see Note 9). Upon lease termination, the sale will be recognized by removing the remaining carrying values of the capital assets and financing liability, with any difference recognized as a gain.

Related party debt

In January 2020, the Company's CEO loaned \$5,000 to the Company. The Company repaid the total amount loaned by the CEO, including the \$15,000 loaned in December 2019, on March 4, 2020. Refer to Note 14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 for more details.

Refer to *Financing transactions* below for a description of a subsequent financing transaction involving the Company's CEO.

Financing transactions

In the first quarter of 2020, the Company raised \$48,887, net of issuance costs, as part of a series of financing transactions that were announced on February 7, 2020 and are further described below.

On February 10, 2020, the Company raised \$27,887, net of issuance costs, from a private placement of 6,085 special warrants priced at \$4.93 per unit. The special warrants were automatically exercised on March 2, 2020 for no additional consideration, and each unit sold consists of one SVS and one SVS purchase warrant with a strike price of \$5.80 and a five-year expiration.

On March 11, 2020, the Company borrowed \$21,000 from an institutional lender pursuant to a credit facility. The credit facility permits the Company to borrow up to \$100,000, which may be drawn down by the Company in four tranches, maturing two years from the date of the first draw down. The Company will pay an annual interest rate of 3.55% on the first advance of debt for a term of two years. The borrowed amounts under the credit facility are fully collateralized by \$22,000 of restricted cash, which was borrowed pursuant to the loan transaction described below.

Also on March 11, 2020, the Company closed \$22,000 in borrowings pursuant to a loan transaction with IP Investment Company, LLC (the "Lender"). The maturity date is 366 days from the closing date of the loan transaction. The Company will pay monthly interest on the collateral in the form of 41 SVS through the maturity date. The Lender may put any unsold interest shares to the Company upon maturity at a price of \$4.50 per share. Kevin Murphy, the Company's Chief Executive Officer, loaned \$21,000 of the \$22,000 borrowed by the Company to the Lender. The loan is secured by the non-U.S. intellectual property assets of the Company.

RSU grant

On February 20, 2020, the Company issued 1,505 RSUs to certain executives with a weighted-average grant date fair value of \$5.11 per share. A discount for lack of marketability was applied that correlates to the period of time. Certain of these shares are subject to restriction.

WCM Refinancing

On March 6, 2020, the Company closed a refinancing, transaction and conversion related to Northeast Patients Group, operating as Wellness Connection of Maine ("WCM"), a medical cannabis business in Maine, resulting in ownership of WCM by three Maine residents, as required by Maine law. In connection with the transaction, WCM converted from a non-profit corporation to a for-profit corporation. WCM previously had a series of agreements with Wellness Pain & Management Connection LLC ("WPMC"), which resulted in an outstanding balance of \$18,800 due to WPMC as of closing of this transaction. A restated consulting agreement was put in place, whereby WCM agrees to pay a fixed annual fee of \$120, payable monthly, in exchange for a suite of consulting services. In addition, a promissory note payable to WPMC was signed in the amount of \$18,800 to convert the existing payment due into a fixed, secured debt obligation.

In order to fund the transaction of WCM, the Company created a new Maine corporation, named Maine HSCP, Inc. ("Maine HSCP"). At closing, the Company contributed \$5,700 to Maine HSCP, and then sold 900 shares of Maine HSCP, constituting all of the outstanding equity interests of Maine HSCP, to three qualifying Maine residents in exchange for promissory notes of \$1,900 each. Each note is secured by a pledge of the shares in Maine HSCP, and payment of the note is to be made solely from dividends paid to the shareholder by Maine HSCP, except for amounts to be paid to the shareholder to cover tax obligations. The Company has the option, exercisable at any time, to buy back the shares, at the higher of fair market value or the remaining balance under the promissory notes. The Maine residents also have the right at any time to put the shares to the Company at the same price.

MSA Terminations

Effective February 13, 2020, subsidiaries of the Company terminated consulting services agreements with three unowned licensed cannabis companies in Massachusetts.

ACREAGE HOLDINGS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data, unaudited)

Terminated Transactions

On April 3, 2020, the Company announced the termination of the securities purchase agreement among Greenleaf Compassionate Care Center, Inc., GCCC Management, LLC (“GCCCM”), the equity holders of GCCCM and High Street Capital Partners, LLC relating to the proposed acquisition of a dispensary in Rhode Island.

Additionally, the merger agreement entered into with Deep Roots Medical LLC was terminated.

Sale of Acreage North Dakota

On May 8, 2020, the Company sold all equity interests in Acreage North Dakota, LLC, a medical cannabis dispensary license holder and operator, for \$1,000.

Standby Equity Distribution Definitive Agreement

On May 28, 2020, the Company reached a definitive agreement with an institutional lender for \$50,000 of financing commitments under a Standby Equity Distribution Agreement (SEDA). The investor commits to purchase up to \$50,000 of subordinate voting shares of the Company at a purchase price of 95% of the market price over the course of 24 months from the effective date.