Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to assist in the understanding and assessing the trends and significant changes in our results of operations and financial condition. Historical results may not be indicative of future performance. This discussion includes forward-looking statements that reflect our plans, estimates and beliefs. Such statements involve risks and uncertainties. Our actual results may differ materially from those contemplated by these forward-looking statements as a result of various factors, including those set forth in "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on May 29, 2020 (the "2019 Form 10-K"), and "Cautionary Statement Regarding Forward-Looking Statements" set forth below.

This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q (this "Quarterly Report" or "Form 10-Q") and the 2019 Form 10-K. Financial information presented in this MD&A is presented in thousands of United States ("U.S.") dollars, unless otherwise indicated.

Cautionary Statement Regarding Forward Looking-Statements

This Quarterly Report of the Company contains statements that include forward-looking information and are forward-looking statements within the meaning of applicable Canadian and United States securities legislation ("forward-looking statements"), including the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. All statements, other than statements of historical fact, included herein are forward-looking statements, including, for greater certainty, the on-going implications of the novel coronavirus ("COVID-19") and statements regarding the proposed transaction with Canopy Growth Corporation ("Canopy Growth"), including the anticipated benefits and likelihood of completion thereof.

Generally, forward-looking statements may be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "proposed", "is expected", "budgets", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "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 statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such forward-looking statements. Forward-looking statements reflect Acreage's current beliefs and are based on information currently available to Acreage and on assumptions Acreage believes are reasonable. Forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Acreage to be materially different from those expressed or implied by such forward-looking statements. Such risks and other factors may include, but are not limited to:

- the future implications to the business, financial results and performance of the Company arising, directly or indirectly, from COVID-19;
- the ability of Acreage and Canopy Growth to receive, in a timely manner and on satisfactory terms, the necessary regulatory, court and shareholders approvals relating to the proposed new arrangement (the "New Arrangement");
- the ability of the parties to satisfy, in a timely manner, the other conditions to the completion of the New Arrangement;
- other expectations and assumptions concerning the transactions contemplated in the New Arrangement;
- the anticipated benefits of the New Arrangement;
- the occurrence or waiver of the Triggering Event (as described in Note 13), the ability of Acreage to meets its performance targets and financial thresholds agreed upon with Canopy Growth as part of the New Arrangement, including those that are conditions to closing the New Arrangement;
- the likelihood of the Triggering Event being satisfied or waived by the outside date; in the event the New Arrangement is not adopted, the likelihood of completing the current plan of arrangement on the current terms;
- in the event that the New Agreement is adopted, the likelihood of Canopy Growth completing the acquisition of the Fixed Shares and/or Floating Shares;
- risks related to the ability to financing Acreage's business and fund its obligations;
- other expectations and assumptions concerning the transactions contemplated between Canopy Growth and Acreage;
- the available funds of Acreage and the anticipated use of such funds;
- the availability of financing opportunities for Acreage and the risks associated with the completion thereof;
- regulatory and licensing risks;
- changes in general economic, business and political conditions, including changes in the financial and stock markets;
- risks related to infectious diseases, including the impacts of the novel coronavirus;
- legal and regulatory risks inherent in the cannabis industry;
- risks associated with economic conditions, dependence on management and currency risk;
- risks relating to U.S. regulatory landscape and enforcement related to cannabis, including political risks;

- risks relating to anti-money laundering laws and regulation;
- other governmental and environmental regulation;
- public opinion and perception of the cannabis industry;
- risks related to contracts with third-party service providers;
- risks related to the enforceability of contracts and lack of access to U.S. bankruptcy protections;
- reliance on the expertise and judgment of senior management of Acreage;
- risks related to proprietary intellectual property and potential infringement by third parties;
- the concentrated voting control of Acreage's founder and the unpredictability caused by Acreage's capital structure;
- risks relating to the management of growth;
- increasing competition in the industry;
- risks inherent in an agricultural business;
- risks relating to energy costs;
- risks associated to cannabis products manufactured for human consumption including potential product recalls;
- reliance on key inputs, suppliers and skilled labor;
- cybersecurity risks;
- ability and constraints on marketing products;
- fraudulent activity by employees, contractors and consultants;
- tax and insurance related risks;
- risks related to the economy generally;
- risk of litigation;
- conflicts of interest;
- risks relating to certain remedies being limited and the difficulty of enforcement judgments and effecting service outside of Canada;
- risks related to future acquisitions or dispositions;
- sales by existing shareholders; and
- limited research and data relating to cannabis.

A description of additional assumptions used to develop such forward-looking statements and a description of additional risk factors that may cause actual results to differ materially from forward-looking statements can be found in Part I, Item 1A of the Company's Annual Report on Form 10-K under the heading "Risk Factors" filed with the SEC on May 29, 2020. Although Acreage 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. Readers are cautioned that the foregoing list of factors is not exhaustive. Readers are further cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are placed will occur. Forward-looking statements contained in this Form 10-Q are expressly qualified by this cautionary statement. The forward-looking statements contained in this Form 10-Q represent the expectations of Acreage as of the date of this Form 10-Q and, accordingly, are subject to change after such date. However, Acreage expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities law.

Management's discussion and analysis of financial condition and results of operations is intended to help provide an understanding of the Company's financial condition, changes in financial condition and results of operations. This discussion is organized as follows:

- ***Overview***—This section provides a general description of the Company's businesses, as well as developments that occurred during the three and six months ended June 30, 2020 and 2019 that the Company believes are important in understanding its results of operations and financial condition or to disclose known trends.

- ***Results of Operations***—This section provides an analysis of the Company's results of operations for the three and six months ended June 30, 2020 and 2019. This analysis is presented on a consolidated basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

- ***Liquidity and Capital Resources***—This section provides an analysis of the Company's cash flows for the six months ended June 30, 2020 and 2019, as well as a discussion on the Company's outstanding debt and commitments that existed as of June 30, 2020. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund the Company's future commitments and obligations, as well as a discussion of other financing arrangements.

Overview

Acreage Holdings, Inc. ("Acreage", "we", "our" or the "Company") is a vertically integrated, multi-state operator of cannabis licenses and assets in the U.S. Our operations include (i) cultivating cannabis plants, (ii) manufacturing branded consumer products, (iii) distributing cannabis flower and manufactured products, and (iv) retailing high-quality, effective and dosable cannabis products to consumers. We appeal to medical and adult-use customers through brand strategies intended to build trust and loyalty.

Highlights from the six months ended June 30, 2020

- We began adult-use sales at our dispensary in Illinois; the significantly increased sales have exceeded internal expectations. We also received zoning approval to open a dispensary in Chicago.
- 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.
- We raised $48,887, net of issuance costs, as part of a series of financing transactions that were announced on February 7, 2020.
- We launched *Leaf Trade*, an e-commerce ordering and fulfillment platform to manage and market wholesale cannabis and hemp in Illinois.
- We received Cannabis Control Commission provisional approval for adult-use sales at *The Botanist* locations in Worcester and Shrewsbury, Massachusetts.
- We closed our acquisition of Compassionate Care Foundation, Inc. ("CCF"), a medical cannabis cultivator and dispenser in New Jersey.

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 which we operate. However, cannabis is illegal under U.S. federal law. Substantially all our revenue is derived from U.S. cannabis operations. For information about risks related to U.S. cannabis operations, please refer to Item 1A of the 2019 Form 10-K.

Results of Operations

The following table presents selected financial data derived from the Unaudited Condensed Consolidated Financial Statements of the Company for the three and six months ended June 30, 2020 and 2019. The selected financial information set out below may not be indicative of the Company's future performance.

Summary Results of Operations in thousands, except per share amounts	**Three Months Ended June 30,**		**Better/(Worse) 2020 vs. 2019**		**Six Months Ended June 30,**		**Better/(Worse) 2020 vs. 2019**	
	2020	2019	$	%	2020	2019	$	%
Revenues, net	$ 27,072	$ 17,745	$ 9,327	53%	$ 51,297	$ 30,642	$ 20,655	67 %
Operating loss	(39,335)	(45,660)	6,325	14%	(290,617)	(77,673)	(212,944)	(274)%
Net loss attributable to Acreage	(37,192)	(37,541)	349	1%	(209,146)	(60,918)	(148,228)	(243)%
Basic and diluted loss per share attributable to Acreage	$ (0.38)	$ (0.44)	$ 0.06	14%	$ (2.19)	$ (0.74)	$ (1.45)	(196)%

Revenues, net, cost of goods sold and gross profit

The Company derives its revenues from sales of cannabis and cannabis-infused products through retail dispensary, wholesale and manufacturing, as well as from management or consulting fees from entities for whom we provide management or consulting services. As of June 30, 2020, Acreage owned and operated five dispensaries in Oregon (three in Portland, one in Eugene and one in Springfield), four in New York (Buffalo, Farmingdale, Middletown, and Queens), three in Connecticut (Bethel, South Windsor and Uncasville), one in Worcester, Massachusetts and one in Rolling Meadows, Illinois. Acreage has cultivation facilities in Sinking

Spring, Pennsylvania, Sterling, Massachusetts, Syracuse, New York and Freeport, Illinois. Acreage also collects management services revenues, substantially all in Maine.

Gross profit is revenue less cost of goods sold. Cost of goods sold include costs directly attributable to inventory sold such as direct material, labor, and overhead. Such costs are further affected by various state regulations that limit the sourcing and procurement of cannabis and cannabis-related products, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes.

Gross profit			**Better/(Worse)**				**Better/(Worse)**	
in thousands	**Three Months Ended June 30,**		**2020 vs. 2019**		**Six Months Ended June 30,**		**2020 vs. 2019**	
	2020	2019	$	%	2020	2019	$	%
Retail revenue, net	$ 19,875	$ 13,351	$ 6,524	49 %	$ 37,448	$ 23,260	$ 14,188	61 %
Wholesale revenue, net	7,167	4,128	3,039	74 %	13,715	6,943	6,772	98 %
Other revenue, net	30	266	(236)	(89)%	134	439	(305)	(69)%
Total revenues, net	$ 27,072	$ 17,745	$ 9,327	53 %	$ 51,297	$ 30,642	$ 20,655	67 %
Cost of goods sold, retail	(11,981)	(8,193)	(3,788)	(46)%	(22,870)	(14,074)	(8,796)	(62)%
Cost of goods sold, wholesale	(3,880)	(1,939)	(1,941)	(100)%	(7,262)	(3,635)	(3,627)	(100)%
Total cost of goods sold	$ (15,861)	$ (10,132)	$ (5,729)	(57)%	$ (30,132)	$ (17,709)	$ (12,423)	(70)%
Gross profit	$ 11,211	$ 7,613	$ 3,598	47 %	$ 21,165	$ 12,933	$ 8,232	64 %
Gross margin	41%	43%		(2)%	41%	42%		(1)%

Revenue increased 53% and 67% for the three and six months ended June 30, 2020, respectively, as compared to the corresponding periods of fiscal 2019. The increase in retail revenue, net was primarily due to increased demand and production across various states. The increase in revenue for the six months ended June 30, 2020 was further driven by the impact of NCC being acquired and fully operational since March 2019. These increases were partially offset by the divestiture of Acreage North Dakota, LLC in May 2020. The increase in wholesale revenue, net was primarily due to increased capacity coupled with maturing operations in our Massachusetts, Pennsylvania and Illinois cultivation facilities. This resulted in higher yields and product mix in each of the respective markets.

Cost of goods sold increased 57% and 70% for the three and six months ended June 30, 2020, respectively, as compared to the corresponding periods of fiscal 2019. Cost of goods sold, retail increased in line with the retail revenue increases. Cost of goods sold, wholesale increased as a result of increases to wholesale revenue. In addition, the increase was further driven by the initial set up costs and consequential expansion impact of various cultivation facilities, with increased efforts during the latter half of 2019 through 2020. The suspension of operations at Form Factory since March 2020 further increased costs of goods sold, wholesale as a result of consequential inventory write-offs.

The increase in gross profit was driven by the factors discussed above. Gross margin for the three months ended June 30, 2020 was 41.4%, compared to 42.9% for the three months ended June 30, 2019. Gross margin for the six months ended June 30, 2020 was 41.3%, compared to 42.2% for the six months ended June 30, 2019.

Revenue by geography

While the Company operates under one operating segment, the production and sale of cannabis products, the below revenue breakout by geography is included as management believes it provides relevant and useful information to investors.

Revenue by region			**Better/(Worse)**				**Better/(Worse)**	
in thousands	**Three Months Ended June 30,**		**2020 vs. 2019**		**Six Months Ended June 30,**		**2020 vs. 2019**	
	2020	2019	$	%	2020	2019	$	%
New England	$ 12,600	$ 8,533	$ 4,067	48 %	$ 23,923	$ 15,617	$ 8,306	53%
Mid-Atlantic	7,319	4,530	2,789	62 %	14,405	7,623	6,782	89%
Midwest	4,286	1,821	2,465	135 %	7,229	2,417	4,812	199%
West	2,578	2,861	(283)	(10)%	5,381	4,985	396	8%
South	289	—	289	n/m	359	—	359	n/m
Total revenues, net	$ 27,072	$ 17,745	$ 9,327	53 %	$ 51,297	$ 30,642	$ 20,655	67%

n/m - Not Meaningful

Total operating expenses

Total operating expenses consist primarily of compensation expense at our corporate offices as well as operating subsidiaries, impairment losses, professional fees, which includes, but is not limited to, legal and accounting services, depreciation and other general and administrative expenses.

Operating expenses			**Better/(Worse)**				**Better/(Worse)**	
in thousands	**Three Months Ended June 30,**		**2020 vs. 2019**		**Six Months Ended June 30,**		**2020 vs. 2019**	
	2020	2019	$	%	2020	2019	$	%
General and administrative	$ 12,386	$ 17,904	$ 5,518	31%	$ 25,418	$ 28,062	$ 2,644	9 %
Compensation expense	7,957	11,252	3,295	29%	22,434	17,741	(4,693)	(26)%
Equity-based compensation expense	20,187	20,693	506	2%	54,924	39,670	(15,254)	(38)%
Marketing	481	1,201	720	60%	1,468	2,002	534	27 %
Loss on impairment	—	—	—	n/m	187,775	—	(187,775)	n/m
Loss on notes receivable	—	—	—	n/m	8,161	—	(8,161)	n/m
Write down of assets held-for-sale	8,110	—	(8,110)	n/m	8,110	—	(8,110)	n/m
Depreciation and amortization	1,425	2,223	798	36%	3,492	3,131	(361)	(12)%
Total operating expenses	$ 50,546	$ 53,273	$ 2,727	5%	$ 311,782	$ 90,606	$ (221,176)	(244)%

n/m - Not Meaningful

Compensation expense decreased during the three months ended June 30, 2020, compared to the corresponding period of fiscal 2019, primarily due to reorganization efforts, including a suspension of operations at Form Factory since March 2020. Compensation expense increased during the six months ended June 30, 2020, compared to the corresponding period of fiscal 2019, primarily driven by stock compensation to attract and retain talent and increased headcount to scale our operations. General and administrative expenses decreased during the three and six months ended June 30, 2020, compared to the corresponding periods of fiscal 2019, primarily due to higher acquisition and due diligence activity in the prior year. During the three and six months ended June 30, 2020, the Company determined certain businesses and assets met the held-for-sale criteria. In accordance with ASC 360-10, *Property, Plant and Equipment*, the assessed disposal groups for such assets held-for-sale were written down to fair value less costs to sell, resulting in the recognition of a charge of $8,110. The Company recognized an impairment loss on certain intangible assets during the six months ended June 30, 2020 as a result of our interim impairment testing, primarily due to declines in future cash flow projections at Form Factory and certain cannabis licenses and management services contracts. These impairments resulted in the recognition of a tax provision benefit and an associated reversal of deferred tax liabilities of $31,316 and $31,398 during the three and six months ended June 30, 2020, respectively. The Company recognized a loss on notes receivable and associated accrued interest during the six months ended June 30, 2020, as it was determined that the note was no longer collectible.

Total other (loss) income

Other income in thousands	**Three Months Ended June 30,**		**Better/(Worse) 2020 vs. 2019**		**Six Months Ended June 30,**		**Better/(Worse) 2020 vs. 2019**	
	2020	2019	$	%	2020	2019	$	%
Income (loss) from investments, net	$ 4	$ (499)	$ 503	n/m	$ 238	$ 2,228	$ (1,990)	(89)%
Interest income from loans receivable	1,830	1,001	829	83%	3,477	1,731	1,746	101 %
Interest expense	(3,733)	(131)	(3,602)	n/m	(4,959)	(249)	(4,710)	n/m
Other loss, net	(23)	(2,400)	2,377	99%	(197)	(2,308)	2,111	91 %
Total other (loss) income	$ (1,922)	$ (2,029)	$ 107	5%	$ (1,441)	$ 1,402	$ (2,843)	n/m
n/m - Not Meaningful								

Income from investments, net increased during the three months ended June 30, 2020, compared to the corresponding period of fiscal 2019 due to mark-to-market fluctuations in our portfolio. Income from investments, net decreased during the six months ended June 30, 2020, compared to the corresponding period of fiscal 2019 due to the roll up of our investments in certain consolidated subsidiaries, and the absence of treasury bills in the current period. Interest expense increased during the three and six months ended June 30, 2020, compared to the corresponding periods of fiscal 2019 primarily due to the effects of increased financing transactions as well as the Company's failed sale-leaseback transaction. Interest income from loans receivable increased during the three and six months ended June 30, 2020, compared to the corresponding periods of fiscal 2019 as our amount of outstanding loans increased. The improvement to Other loss, net was driven by higher expenses related to day one charges for the acquisition of Form Factory incurred during the three and six months ended June 30, 2019.

Net loss

Net loss in thousands	**Three Months Ended June 30,**		**Better/(Worse) 2020 vs. 2019**		**Six Months Ended June 30,**		**Better/(Worse) 2020 vs. 2019**	
	2020	2019	$	%	2020	2019	$	%
Net loss	$ (44,370)	$ (49,265)	$ 4,895	10%	$ (266,599)	$ (80,069)	$ (186,530)	(233)%
Less: net loss attributable to non-controlling interests	(7,178)	(11,724)	4,546	39%	(57,453)	(19,151)	(38,302)	(200)%
Net loss attributable to Acreage Holdings, Inc.	$ (37,192)	$ (37,541)	$ 349	1%	$ (209,146)	$ (60,918)	$ (148,228)	(243)%

The increases in net loss are driven by the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources and uses of cash

Our primary uses of capital include capital expenditures, servicing of outstanding debt and operating expenses. Our primary sources of capital include funds generated by cannabis sales as well as financing activities. Through June 30, 2020, we have primarily used private financing as a source of liquidity for short-term working capital needs and general corporate purposes. In May and June 2020, we closed on two separate financing transactions described in detail in Note 10 to the Unaudited Condensed Consolidated Financial Statements. Our ability to fund our operations, capital expenditures, acquisitions, and other obligations depends on our future operating performance and ability to obtain financing, which are subject to prevailing economic conditions, as well a financial, business and other factors, some of which are beyond our control.

We expect that our cash on hand and cash flows from operations, along with our ability to obtain private and/or public financing, will be adequate to support the capital needs of the existing operations as well as expansion plans for the next 12 months. While our liquidity risk has increased since our RTO transaction as a result of the Company's rapid growth and continued expansion resulted in negative operating cash flow for the year ended December 31, 2019, we believe we have alleviated the risk. Please see the disclosures under "*Basis of presentation and going concern*" in Note 2 to our Unaudited Condensed Consolidated Financial Statements.

Cash flows

Cash and cash equivalents and restricted cash were $36,074 as of June 30, 2020, a decline of $48,510 from June 30, 2019. The following table summarizes the change in cash, cash equivalents and restricted cash for the six months ended June 30, 2020 and 2019.

Cash flows			**Better/(Worse)**	
in thousands	**Six Months Ended June 30,**		**2020 vs. 2019**	
	2020	2019	$	%
Net cash used in operating activities	$ (39,318)	$ (37,246)	$ (2,072)	(6)%
Net cash (used in) provided by investing activities	(28,638)	41,074	(69,712)	n/m
Net cash provided by (used in) financing activities	77,430	(24,282)	101,712	n/m
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 9,474	$ (20,454)	$ 29,928	n/m
n/m - Not Meaningful				

Net cash used in operating activities

The increases in cash used in operating activities were primarily driven by an increase in compensation expenses during the six months ended June 30, 2020, as compared to the corresponding period of fiscal 2019.

The increases in cash used in operating activities were primarily driven by an increase in general and administrative and compensation expenses during the six months ended June 30, 2019, as compared to the corresponding period of fiscal 2018.

Net cash used in investing activities

Cash used in investing activities during the six months ended June 30, 2020, as compared to the corresponding period of fiscal 2019 was primarily driven by the acquisition of Compassionate Care Foundation, Inc. (“CCF”) for $9,983, net of cash acquired, $7,880 spent on capital expenditures to build out our owned operations and $12,900 advanced to entities, net of collections, with which we have a management or consulting services arrangement. This is partially offset by proceeds received from the sale of capital assets and the proceeds from the sale of Acreage North Dakota, LLC for $1,102 and $997, respectively.

Cash provided by investing activities during the six months ended June 30, 2019 was primarily driven by the maturing of short-term investments, which contributed $149,828. Partially offsetting this cash receipt were cash disbursements of $76,917 spent on the advanced payments and purchases of cannabis license holders and management contracts, $20,291 spent on capital expenditures to build out our owned operations, and $11,550 advanced to entities, net of collections, with which we have a management or consulting services arrangement.

Net cash provided by (used in) financing activities

Cash provided by financing activities during the six months ended June 30, 2020 was primarily driven by proceeds from raising $27,887 as a result of the issuance of warrants, $46,000 related to financing proceeds, as well as $22,000 related to collateral received pursuant to a portion of the financing proceeds. This is partially offset by the repayment of short-term related party debt of $15,000 as well as payments of deferred financing costs of $3,181.

Cash used in financing activities during the six months ended June 30, 2019 was primarily driven by $12,075 in debt repayments, $4,298 paid to settle taxes withheld, and $4,298 related to net capital distributions for non-controlling interests.

Capital Resources

Capital structure and debt

Our debt outstanding as of June 30, 2020 is as follows:

Debt balances		**June 30, 2020**
NCCRE loan	$	481
Seller's notes		2,679
Financing liability (related party)		15,253
Finance lease liabilities		5,998
SAF loan		19,638
SAF loan collateral (related party)		23,358
Convertible note, net of debt discount		9,288
Bridge loan		14,173
Total debt	**$**	**90,868**
Less: current portion of debt		47,009
Total long-term debt	**$**	**43,859**

Commitments and contingencies

See Note 13–Commitments and Contingencies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company has exposure to the following risks from its use of financial instruments and other risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include market, credit, liquidity, asset forfeiture, banking and interest rate risk.

Market risk

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

Credit risk

The Company's exposure to non-payment or non-performance by its counterparties is a credit risk. The maximum credit exposure as of June 30, 2020, is the carrying amount of cash and cash equivalents, restricted cash, and accounts, notes and other receivables. The Company does not have significant credit risk with respect to customers. The Company mitigates its credit risk on its notes and other receivables by securing collateral, such as capital assets, and by its review of the counterparties and their businesses. The Company considers a variety of factors when determining interest rates for notes receivable, including the creditworthiness of the counterparty, market interest rates prevailing at the note's origination, and duration and terms of the note. The Company determined expected credit losses to be immaterial due to collateral held. Analysis of collateral held and future expected cash flows within the cannabis industry were considered in its expected credit loss assessment.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company endeavors to ensure that there is sufficient liquidity in order to meet short-term business requirements, after taking into account the Company's cash holdings. As of June 30, 2020, the Company's financial liabilities consist of accounts payable and accrued liabilities, lease liabilities and long-term debt. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis.

As reflected in the Unaudited Condensed Consolidated Financial Statements, the Company had an accumulated deficit as of June 30, 2020, 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 first made available has been alleviated due to, but not limited to, (i) access to future capital commitments, (ii) continued sales growth from our consolidated operations, (iii) latitude as to the timing and amount of certain operating expenses as well as capital expenditures, (iv) restructuring plans that have already been put in place to improve the Company's profitability (See Note 3 of the Unaudited Condensed Consolidated Financial Statements), and (v) the Standby Equity Distribution Agreement described in Note 13 of the Unaudited Condensed 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 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.

Asset forfeiture risk

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

Banking risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the Company, its subsidiaries and investee companies, and leaves their cash holdings vulnerable. The Company has banking relationships in all jurisdictions in which it operates.

In addition, the Company maintains cash with various U.S. banks and credit unions with balances in excess of the Federal Deposit Insurance Corporation and National Credit Union Share Insurance Fund limits, respectively. The failure of a bank or credit union where the Company has significant deposits could result in a loss of a portion of such cash balances in excess of the insured limit, which could materially and adversely affect the Company's business, financial condition, results of operations and the market price of the Company's Subordinate Voting Shares.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company's interest-bearing loans and borrowings are all at fixed interest rates. The Company considers cash flow interest rate risk to be immaterial.

Capital risk management

The Company considers its capital structure to include contributed capital, accumulated deficit, non-controlling interests and any other component of equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As reflected in the Unaudited Condensed Consolidated Financial Statements, the Company had an accumulated deficit as of June 30, 2020, 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 first made available has been alleviated due to, but not limited to, (i) capital raised between January and June 2020, (ii) access to future capital commitments, (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 13 of the Unaudited Condensed 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 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.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of June 30, 2020 to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Inherent Limitations Over Internal Controls

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that the Company's internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In accordance with guidance issued by the SEC, companies are permitted to exclude acquisitions from their final assessment of internal control over financial reporting for the first fiscal year in which the acquisition occurred. Management, including the Chief Executive Officer and Chief Financial Officer, has limited the evaluation of our internal controls over financial reporting to exclude controls, policies and procedures and internal controls over financial reporting of the recently acquired operations of:

- Compassionate Care Foundation, Inc. ("CCF") (acquired June 26, 2020)

The operations of CCF represents approximately 5% of our total assets as of June 30, 2020 and 0% of our gross revenue for the six months ended June 30, 2020.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the second quarter of 2020, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.