

ACREAGE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

PART I

Item 1. Financial Statements and Supplementary Data.

| (in thousands) | <u>June 30, 2020</u> <u>(unaudited)</u> | <u>December 31, 2019</u> <u>(audited)</u> |
|---|--|--|
| ASSETS | | |
| Cash and cash equivalents | \$ 13,979 | \$ 26,505 |
| Restricted cash | 22,095 | 95 |
| Inventory | 21,344 | 18,083 |
| Notes receivable, current | 2,094 | 2,146 |
| Assets held-for-sale | 68,040 | — |
| Other current assets | 11,811 | 8,506 |
| Total current assets | <u>139,363</u> | <u>55,335</u> |
| Long-term investments | 4,711 | 4,499 |
| Notes receivable, non-current | 94,302 | 79,479 |
| Capital assets, net | 96,819 | 106,047 |
| Operating lease right-of-use assets | 36,280 | 51,950 |
| Intangible assets, net | 145,660 | 285,972 |
| Goodwill | 26,675 | 105,757 |
| Other non-current assets | 3,401 | 2,638 |
| Total non-current assets | <u>407,848</u> | <u>636,342</u> |
| TOTAL ASSETS | <u>\$ 547,211</u> | <u>\$ 691,677</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Accounts payable and accrued liabilities | \$ 27,593 | \$ 32,459 |
| Taxes payable | 10,365 | 4,740 |
| Interest payable | 1,020 | 291 |
| Operating lease liability, current | 2,283 | 2,759 |
| Debt, current | 47,009 | 15,300 |
| Liabilities related to assets held-for-sale | 26,352 | — |
| Other current liabilities | 6,643 | 1,604 |
| Total current liabilities | <u>121,265</u> | <u>57,153</u> |
| Debt, non-current | 43,859 | 28,186 |
| Operating lease liability, non-current | 35,058 | 47,522 |
| Deferred tax liability | 35,472 | 63,997 |
| Other liabilities | 2 | 25 |
| Total non-current liabilities | <u>114,391</u> | <u>139,730</u> |
| TOTAL LIABILITIES | <u>235,656</u> | <u>196,883</u> |
| Commitments and contingencies (Note 13) | | |
| Common stock, no par value (Note 11) - unlimited authorized, 98,566 and 90,646 issued and outstanding, respectively | — | — |
| Additional paid-in capital | 693,425 | 615,678 |
| Treasury stock, 842 SVS held in treasury | (21,054) | (21,054) |
| Accumulated deficit | (397,763) | (188,617) |
| Total Acreage Shareholders' equity | <u>274,608</u> | <u>406,007</u> |
| Non-controlling interests | 36,947 | 88,787 |
| TOTAL EQUITY | <u>311,555</u> | <u>494,794</u> |
| TOTAL LIABILITIES AND EQUITY | <u>\$ 547,211</u> | <u>\$ 691,677</u> |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| (in thousands, except per share amounts) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|--------------------|------------------------------|--------------------|
| | 2020 | 2019 | 2020 | 2019 |
| REVENUE | | | | |
| Retail revenue, net | \$ 19,875 | \$ 13,351 | \$ 37,448 | \$ 23,260 |
| Wholesale revenue, net | 7,167 | 4,128 | 13,715 | 6,943 |
| Other revenue, net | 30 | 266 | 134 | 439 |
| Total revenues, net | 27,072 | 17,745 | 51,297 | 30,642 |
| Cost of goods sold, retail | (11,981) | (8,193) | (22,870) | (14,074) |
| Cost of goods sold, wholesale | (3,880) | (1,939) | (7,262) | (3,635) |
| Total cost of goods sold | (15,861) | (10,132) | (30,132) | (17,709) |
| Gross profit | 11,211 | 7,613 | 21,165 | 12,933 |
| OPERATING EXPENSES | | | | |
| General and administrative | 12,386 | 17,904 | 25,418 | 28,062 |
| Compensation expense | 7,957 | 11,252 | 22,434 | 17,741 |
| Equity-based compensation expense | 20,187 | 20,693 | 54,924 | 39,670 |
| Marketing | 481 | 1,201 | 1,468 | 2,002 |
| Loss on impairment | — | — | 187,775 | — |
| Loss on notes receivable | — | — | 8,161 | — |
| Write down of assets held-for-sale | 8,110 | — | 8,110 | — |
| Depreciation and amortization | 1,425 | 2,223 | 3,492 | 3,131 |
| Total operating expenses | 50,546 | 53,273 | 311,782 | 90,606 |
| Net operating loss | \$ (39,335) | \$ (45,660) | \$ (290,617) | \$ (77,673) |
| Income (loss) from investments, net | 4 | (499) | 238 | 2,228 |
| Interest income from loans receivable | 1,830 | 1,001 | 3,477 | 1,731 |
| Interest expense | (3,733) | (131) | (4,959) | (249) |
| Other loss, net | (23) | (2,400) | (197) | (2,308) |
| Total other (loss) income | (1,922) | (2,029) | (1,441) | 1,402 |
| Loss before income taxes | \$ (41,257) | \$ (47,689) | \$ (292,058) | \$ (76,271) |
| Income tax (expense) benefit | (3,113) | (1,576) | 25,459 | (3,798) |
| Net loss | \$ (44,370) | \$ (49,265) | \$ (266,599) | \$ (80,069) |
| Less: net loss attributable to non-controlling interests | (7,178) | (11,724) | (57,453) | (19,151) |
| Net loss attributable to Acreage Holdings, Inc. | \$ (37,192) | \$ (37,541) | \$ (209,146) | \$ (60,918) |
| Net loss per share attributable to Acreage Holdings, Inc. - basic and diluted: | \$ (0.38) | \$ (0.44) | \$ (2.19) | \$ (0.74) |
| Weighted average shares outstanding - basic and diluted | 98,444 | 85,640 | 95,688 | 82,557 |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (in thousands) | LLC Membership Units | Pubco Shares (as converted) | Attributable to shareholders of the parent | | | | Shareholders' Equity | Non-controlling Interests | Total Equity |
|--|----------------------|-----------------------------|--|--------------------|---------------------|-------------------|----------------------|---------------------------|--------------|
| | | | Share Capital | Treasury Stock | Accumulated Deficit | | | | |
| 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 | |
| Issuances for business acquisitions/purchases of intangible assets | — | 4,770 | 95,266 | — | — | 95,266 | 356 | 95,622 | |
| NCI adjustments for changes in ownership | — | 388 | (15,820) | — | — | (15,820) | 15,820 | — | |
| Capital distributions, net | — | — | — | — | — | — | (4,298) | (4,298) | |
| Other equity transactions | — | 294 | 5,201 | — | — | 5,201 | — | 5,201 | |
| Equity-based compensation expense and related issuances | — | 288 | 15,574 | — | — | 15,574 | — | 15,574 | |
| Net loss | — | — | — | — | (37,541) | (37,541) | (11,724) | (49,265) | |
| June 30, 2019 | — | 85,960 | \$ 539,017 | \$ (21,054) | \$ (99,267) | \$ 418,696 | \$ 124,009 | \$ 542,705 | |

| (in thousands) | LLC Membership Units | Pubco Shares (as converted) | Attributable to shareholders of the parent | | | | Shareholders' Equity | Non-controlling Interests | Total Equity |
|---|----------------------|-----------------------------|--|--------------------|---------------------|-------------------|----------------------|---------------------------|--------------|
| | | | Share Capital | Treasury Stock | Accumulated Deficit | | | | |
| December 31, 2019 | — | 90,646 | \$ 615,678 | \$ (21,054) | \$ (188,617) | \$ 406,007 | \$ 88,787 | \$ 494,794 | |
| Issuances for private placement | — | 6,085 | 27,887 | — | — | 27,887 | — | 27,887 | |
| NCI adjustments for changes in ownership | — | 113 | (6,564) | — | — | (6,564) | 6,564 | — | |
| Capital distributions, net | — | — | — | — | — | — | (18) | (18) | |
| Equity-based compensation expense and related issuances | — | 586 | 34,737 | — | — | 34,737 | — | 34,737 | |
| Net loss | — | — | — | — | (171,954) | (171,954) | (50,275) | (222,229) | |
| March 31, 2020 | — | 97,430 | \$ 671,738 | \$ (21,054) | \$ (360,571) | \$ 290,113 | \$ 45,058 | \$ 335,171 | |
| NCI adjustments for changes in ownership | 3,861 | 272 | 977 | — | — | 977 | (977) | — | |
| Beneficial conversion feature on convertible note (See Note 10) | — | — | 523 | — | — | 523 | — | 523 | |
| Other equity transactions | — | — | — | — | — | — | 44 | 44 | |
| Equity-based compensation expense and related issuances | — | 864 | 20,187 | — | — | 20,187 | — | 20,187 | |
| Net loss | — | — | — | — | (37,192) | (37,192) | (7,178) | (44,370) | |
| June 30, 2020 | 3,861 | 98,566 | \$ 693,425 | \$ (21,054) | \$ (397,763) | \$ 274,608 | \$ 36,947 | \$ 311,555 | |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in thousands) | Six Months Ended June 30, | |
|--|---------------------------|--------------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (266,599) | \$ (80,069) |
| Adjustments for: | | |
| Depreciation and amortization | 3,492 | 3,131 |
| Equity-settled expenses, including compensation | 54,924 | 44,874 |
| Gain on business divestiture | (217) | — |
| (Gain) loss on disposal of capital assets | (187) | 84 |
| Loss on impairment | 187,775 | — |
| Loss on notes receivable | 8,161 | — |
| Bad debt expense | 172 | — |
| Non-cash interest expense | 2,353 | — |
| Non-cash operating lease expense | 947 | 538 |
| Deferred tax benefit | (31,955) | (99) |
| Non-cash income from investments, net | (238) | (1,436) |
| Write-down of assets held-for-sale | 8,110 | — |
| Change, net of acquisitions in: | | |
| Inventory | (2,913) | (3,901) |
| Other assets | (1,522) | (2,926) |
| Interest receivable | (574) | (2,246) |
| Accounts payable and accrued liabilities | (7,849) | 5,899 |
| Taxes payable | 6,083 | (111) |
| Interest payable | 729 | (387) |
| Other liabilities | (10) | (597) |
| Net cash used in operating activities | <u>\$ (39,318)</u> | <u>\$ (37,246)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of capital assets | \$ (7,880) | \$ (20,291) |
| Investments in notes receivable | (13,092) | (14,574) |
| Collection of notes receivable | 192 | 3,024 |
| Cash paid for long-term investments | — | (158) |
| Proceeds from business divestiture | 997 | — |
| Proceeds from sale of capital assets | 1,102 | 162 |
| Business acquisitions, net of cash acquired | (9,983) | (20,205) |
| Purchases of intangible assets | — | (56,497) |
| Deferred acquisition costs and deposits | — | (215) |
| Distributions from investments | 26 | — |
| Proceeds from purchase of short-term investments | — | 149,828 |
| Net cash (used in) provided by investing activities | <u>\$ (28,638)</u> | <u>\$ 41,074</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from related party debt | 5,000 | — |
| Repayment of related party loan | (20,000) | — |
| Proceeds from financing | 46,000 | — |
| Deferred financing costs paid | (3,181) | — |
| Proceeds from issuance of private placement units, net | 27,887 | — |
| Collateral received from financing agreement | 22,000 | — |
| Settlement of taxes withheld | — | (7,909) |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | | |
|---|-----------|-------------|
| Repayment of debt | (276) | (12,075) |
| Capital distributions, net | — | (4,298) |
| Net cash provided by (used in) financing activities | \$ 77,430 | \$ (24,282) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | \$ 9,474 | \$ (20,454) |
| Cash, cash equivalents and restricted cash - Beginning of period | 26,600 | 105,038 |
| Cash, cash equivalents and restricted cash - End of period | \$ 36,074 | \$ 84,584 |

| (in thousands) | Six Months Ended June 30, | |
|---|----------------------------------|-------------|
| | 2020 | 2019 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Interest paid - non-lease | \$ 176 | \$ 588 |
| Income taxes paid | 525 | 4,006 |
| OTHER NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Capital assets not yet paid for | \$ 4,635 | \$ 670 |
| Issuance of Class D units for land | — | 264 |
| Exchange of intangible assets to notes receivable (Note 4) | 18,800 | — |
| Holdback of Maine HSCP notes receivable (Note 6) | 917 | — |
| Promissory note conversion to equity (Note 6) | 10,087 | — |
| Deferred tax liability related to business acquisition (Note 3) | 3,425 | — |
| Beneficial conversion feature (Note 10) | 523 | — |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

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, operates and has contractual relationships with 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 described below.

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 RTO transaction

On September 21, 2018, the Company, HSCP, HSCP Merger Corp. (a wholly-owned subsidiary of the Company), Acreage Finco B.C. Ltd. (a special purpose corporation) (“Finco”), Acreage Holdings America, Inc. (“USCo”) and Acreage Holdings WC, Inc. (“USCo2”) entered into a combination agreement (the “Agreement”) whereby the parties agreed to combine their respective businesses, which would result in the RTO of Pubco by the security holders of HSCP, which was deemed to be the accounting acquirer. On November 14, 2018, the parties to the Agreement completed the RTO. The RTO transaction is described in detail in Note 1 to the Consolidated Financial Statements of the Company in the Company’s Annual Report on Form 10-K, filed with the SEC on May 29, 2020.

Canopy Growth Corporation transaction

On June 27, 2019, the Company and Canopy Growth Corporation (“Canopy Growth” or “CGC”) completed the transactions contemplated by the arrangement agreement dated April 18, 2019, as amended May 15, 2019, between Canopy Growth and Acreage. Canopy Growth was granted an option to acquire all outstanding shares of the Company, with a requirement to do so upon the occurrence of the occurrence of changes in U.S. federal law to permit the general cultivation, distribution, and possession of marijuana (the “Arrangement”).

On June 24, 2020, Canopy Growth and the Company entered into an agreement to amend the terms of the Arrangement. Please refer to Note 13 for further discussion.

COVID-19

In December 2019, a novel strain of coronavirus (“COVID-19”) emerged in Wuhan, China. Since then, it has spread to several other countries and infections have been reported around the world. On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic.

In response to the outbreak, governmental authorities in the United States, Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place and social distancing. The COVID-19 outbreak and the response of governmental authorities to try to limit it are having a significant impact on the private sector and individuals, including unprecedented business, employment and economic disruptions. Management has been closely monitoring the impact of COVID-19, with a focus in the health and safety of our employees, business continuity and supporting our communities. We have implemented various measures to reduce the spread of the virus, including implementing social distancing measures at our cultivation facilities, manufacturing facilities, and dispensaries, enhancing cleaning protocols at such facilities and dispensaries and encouraging employees to adhere to preventative measures recommended by local, state, and federal health officials.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and going concern

The Unaudited Condensed Consolidated Financial Statements of Acreage have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting only of normal recurring adjustments necessary for a fair presentation have been reflected in these Unaudited Condensed Consolidated Financial Statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2020.

As reflected in the financial statements, the Company had an accumulated deficit as of June 30, 2020, as well as a net loss and net cash used in 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 about the Company’s 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) 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) 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.

Use of estimates

The preparation of the Company’s Unaudited Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the amounts that are reported in the Unaudited Condensed Consolidated Financial Statements and accompanying disclosures. Although these estimates are based on management’s best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates. Significant estimates inherent in the preparation of the accompanying Unaudited 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.

These interim Unaudited Condensed Consolidated Financial Statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019 as filed with the Securities and Exchange Commission on May 29, 2020 (the “2019 Form 10-K”).

Emerging growth company

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act (the “JOBS Act”). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies.

Functional and presentation currency

The Unaudited Condensed 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.

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

Basis of consolidation

Our Unaudited 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 entities in which the Company has significant influence, but less than a controlling financial interest, 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.

The unaudited and audited consolidated financial statements are referred to as the “Financial Statements” herein. The unaudited condensed consolidated statements of operations are referred to as the “Statements of Operations” herein. The unaudited and audited condensed consolidated statements of financial position are referred to as the “Statements of Financial Position” herein. The unaudited condensed consolidated statements of cash flows are referred to as the “Statements of Cash Flows” herein.

Restricted cash

Restricted cash represents funds contractually held for specific purposes (Refer to Note 10) and, as such, not available for general corporate purposes. Cash and restricted cash, as presented on the Statements of Cash Flows, consists of \$13,979 and \$22,095 as of June 30, 2020, respectively, and \$26,505 and \$95 as of December 31, 2019.

Impairment of long-lived assets

Goodwill and indefinite-lived intangible assets are not subject to amortization and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. Goodwill and indefinite-lived intangible assets are tested at the individual business level. The Company may first assess qualitative factors and, if it determines it is more likely than not that the fair value is less than the carrying value, then proceed to a quantitative test if necessary.

Finite-lived intangible assets and other long-lived assets are tested for impairment based on undiscounted cash flows when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Accounting for warrants and convertible notes

The Company determines the accounting classification of warrants it issues, as either liability or equity classified, by first assessing whether the warrants meet liability classification in accordance with ASC 480-10, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, then in accordance with ASC 815-40, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock*. Under ASC 480, warrants are considered liability classified if the warrants are mandatorily redeemable, obligate the Company to settle the warrants or the underlying shares by paying cash or other assets, or warrants that must or may require settlement by issuing a variable number of shares.

If warrants do not meet the liability classification under ASC 480-10, the Company assesses the requirements under ASC 815-40, which states that contracts that require or may require the issuer to settle the contract for cash are liabilities recorded at fair value, irrespective of the likelihood of the transaction occurring that triggers the net cash settlement feature. If the warrants do not require liability classification under ASC 815-40, and in order to conclude equity classification, the Company also assesses whether the warrants are indexed to its common stock and whether the warrants are classified as equity under ASC 815-40 or other applicable GAAP. After all relevant assessments, the Company concludes whether the warrants are classified as liability or equity. Liability classified warrants require fair value accounting at issuance and subsequent to initial issuance with all changes in fair value after the issuance date recorded in the statements of operations. Equity classified warrants only require fair value accounting at issuance with no changes recognized subsequent to the issuance date.

The Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the difference between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. The debt discounts under these arrangements are amortized over the earlier of (i) the term of the related debt using the straight line method which approximates the interest rate method or (ii) redemption of the debt. The amortization of debt discounts is included as a component of *Interest expense* in the accompanying Statements of Operations. Refer to Note 10.

Assets held for sale

ACREAGE HOLDINGS, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

The Company classifies long-lived assets or disposal groups as held for sale in the period when the following held for sale criteria are met: (i) the Company commits to a plan to sell; (ii) the long-lived asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such long-lived assets or disposal groups; (iii) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (iv) the sale is probable within one year; (v) the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (vi) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. In accordance with ASC 360-10, *Property, Plant and Equipment*, long-lived assets and disposal groups classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

Net 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 June 30, 2020 and 2019 as the issuance of shares upon conversion, exercise or vesting of outstanding units would be anti-dilutive in each period. There were 46,739 and 41,953 anti-dilutive shares outstanding as of June 30, 2020 and 2019, respectively. Refer to Note 16 for further details.

Accounting Pronouncements Recently Adopted

As of December 2019, the Company early adopted ASU 2017-04 - *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). The objective of ASU 2017-04 is to simplify how an entity is required to test goodwill for impairment. Under previous GAAP, entities were required to test goodwill for impairment using a two-step approach. Under the amendments in ASU 2017-04, an entity performs its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The adoption of ASU 2017-04 did not have an effect on the Company’s Financial Statements.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13 - *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which was subsequently revised by ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-11, ASU 2020-02 and ASU 2020-03. ASU 2016-13 introduces a new model for assessing impairment on most financial assets. Entities will be required to use a forward-looking expected loss model, which will replace the current incurred loss model, which will result in earlier recognition of allowance for losses. As an emerging growth company, the Company has elected to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Securities and Exchange Act of 1934. Accordingly, ASU 2016-13 will be effective for the Company’s first interim period of fiscal 2023, and the Company is currently evaluating the impact of the new standard.

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3. ACQUISITIONS, DIVESTITURES AND ASSETS HELD FOR SALE

Acquisitions

During the three and six months ended June 30, 2020, the Company completed the following business combination below. The preliminary purchase price allocation is as follows:

| Purchase Price Allocation | CCF (1) |
|--|----------------|
| Assets acquired: | |
| Cash and cash equivalents | 17 |
| Inventory | 1,969 |
| Other current assets | 3,164 |
| Capital assets, net | 4,173 |
| Operating lease ROU assets | 4,455 |
| Goodwill | — |
| Intangible assets - cannabis licenses | 15,247 |
| Other non-current assets | 10 |
| Liabilities assumed: | |
| Accounts payable and accrued liabilities | (228) |
| Taxes payable | (17) |
| Other current liabilities | (4,248) |
| Operating lease liability | (4,455) |
| Fair value of net assets acquired | 20,087 |
| Consideration paid: | |
| Cash | 10,000 |
| Settlement of pre-existing relationship | 10,087 |
| Total consideration | 20,087 |

(1) On June 26, 2020, the Company acquired 100% of Compassionate Care Foundation, Inc. (“CCF”), a New Jersey vertically integrated medical cannabis nonprofit corporation.

The settlement of pre-existing relationship included in the transaction price includes a \$7,952 line of credit as well as interest receivable of \$2,135 which were both previously recorded in *Notes receivable, non-current* in the Statements of Financial Position. The carrying value of these amounts approximated their fair value.

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During the six months ended June 30, 2019, the Company completed the following business combinations, and has allocated each purchase price as follows:

| Purchase Price Allocation | Thames Valley (1) | NCC (2) | Form Factory (3) | Total |
|--|------------------------------|--------------------|-----------------------------|-------------------|
| Assets acquired: | | | | |
| Cash and cash equivalents | \$ 106 | \$ 696 | \$ 4,276 | \$ 5,078 |
| Inventory | 39 | 170 | 520 | 729 |
| Other current assets | 1 | 36 | 1,136 | 1,173 |
| Capital assets, net | — | 539 | 3,988 | 4,527 |
| Operating lease ROU assets | — | — | 10,477 | 10,477 |
| Goodwill | 3,594 | 4,196 | 66,127 | 73,917 |
| Intangible assets - cannabis licenses | 14,850 | 2,500 | 39,469 | 56,819 |
| Intangible assets - customer relationships | — | — | 4,600 | 4,600 |
| Intangible assets - developed technology | — | — | 3,100 | 3,100 |
| Other non-current assets | — | 25 | 406 | 431 |
| Liabilities assumed: | | | | |
| Accounts payable and accrued liabilities | (121) | (24) | (1,572) | (1,717) |
| Other current liabilities | — | (621) | — | (621) |
| Debt | — | — | (494) | (494) |
| Operating lease liability | — | — | (10,477) | (10,477) |
| Deferred tax liability | (3,397) | (465) | (14,517) | (18,379) |
| Other liabilities | — | (175) | (23) | (198) |
| Fair value of net assets acquired | \$ 15,072 | \$ 6,877 | \$ 107,016 | \$ 128,965 |
| Consideration paid: | | | | |
| Cash | 15,072 | — | 3,711 | 18,783 |
| Deferred acquisition costs and deposits | — | 100 | — | 100 |
| Subordinate Voting Shares | — | 3,948 | 95,266 | 99,214 |
| Settlement of pre-existing relationship | — | 830 | 8,039 | 8,869 |
| Fair value of previously held interest | — | 1,999 | — | 1,999 |
| Total consideration | \$ 15,072 | \$ 6,877 | \$ 107,016 | \$ 128,965 |
| Subordinate Voting Shares issued | — | 211 | 4,770 | 4,981 |

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. 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 Statements of Operations during the six months ended June 30, 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 Statements of Financial Position. The carrying value of these amounts approximated their fair value.

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(3) 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 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.

The market price used in valuing unrestricted SVS issued was \$20.45 per share. Certain SVS are subject to clawback should certain indemnity conditions arise and as such, a discount for lack of marketability was applied that correlates to the period of time these shares are subject to restriction.

The Company also recorded an expense of \$2,139 in the Statements of Operations for the six months ended June 30, 2019 in connection with the acquisition of Form Factory that represents stock compensation fully vested on the acquisition date. 86 SVS valued at \$1,753 were issued and recorded in *Other equity transactions* on the Statements of Shareholders’ Equity, with the remainder settled in cash.

The settlement of pre-existing relationship included in the transaction price included a \$7,924 promissory note receivable and \$115 of interest receivable. The carrying value of these amounts approximated their fair value.

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.

As of June 30, 2020 and December 31, 2019, the Company had no deferred acquisition costs outstanding.

Divestitures

On May 8, 2020, the Company sold all equity interests in Acreage North Dakota, LLC, a medical cannabis dispensary holder and operator, for \$1,000. This resulted in a gain on sale of \$217 recorded in *Other loss, net* on the Statements of Operations for the three and six months ended June 30, 2020.

Assets Held for Sale

On June 30, 2020, the Company determined certain businesses and assets met the held-for-sale criteria. The Company has identified the following businesses as their separate disposal groups: Acreage Florida, Inc., Kanna, Inc., Maryland Medicinal Research & Caring, LLC (“MMRC”) and certain Oregon entities comprising HSCP Oregon, LLC, 22nd & Burn, Inc., The Firestation 23, Inc., East 11th Incorporated. As a further disposal group, the Company has identified certain assets owned in Michigan as held-for-sale.

In accordance with ASC 205-20-45 - *Discontinued Operations*, a disposal of a component of an entity shall be reported in discontinued operations if the divestiture represents a strategic shift that will have a major effect on the entity’s operations and financial results. Management determined that the expected divestitures will not represent a strategic shift that will have a major effect on the Company’s operations and financial results and thus will not report the expected divestitures of these assets as discontinued operations.

Upon classification of the disposal groups as held for sale, the Company tested each disposal group for impairment and recognized a charge of \$8,110 within *Write down of assets held-for-sale* on the Statements of Operations for the three and six months ended June 30, 2020 to write the disposal groups down to its fair value less costs to sell. Additionally, all assets and liabilities determined within these disposal groups were transferred into *Assets held-for-sale* and *Liabilities related to assets held-for-sale* on the Statements of Financial Position, respectively as of June 30, 2020 from each of their previous respective financial statement captions. Refer to table below for further details.

The preliminary fair values of the major classes of assets and liabilities of the businesses and assets classified as held-for-sale on our Statements of Financial Position are presented below and are subject to change based on developments during the sales process.

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| | June 30, 2020 | | | | | |
|---|-----------------------------|-------------------|---------------------|-----------------|-------------------|--------------------|
| | Acreage Florida, Inc. | Kanna, Inc. | MMRC ⁽¹⁾ | Michigan | Oregon | Total |
| Inventory | \$ 1,017 | \$ — | \$ 30 | \$ — | \$ 1,657 | \$ 2,704 |
| Notes receivable, current | — | — | — | — | 64 | 64 |
| Other current assets | 90 | — | 46 | — | 1 | 137 |
| Total current assets classified as held-for-sale | 1,107 | — | 76 | — | 1,722 | 2,905 |
| Capital assets, net | 6,480 | 1,172 | 286 | 7,469 | 2,951 | 18,358 |
| Operating lease right-of-use assets | 11,725 | 2,209 | 362 | — | 2,328 | 16,624 |
| Intangible assets, net | 26,190 | 970 | 801 | — | — | 27,961 |
| Goodwill | — | — | — | — | 2,192 | 2,192 |
| Total assets classified as held for sale | <u>\$ 45,502</u> | <u>\$ 4,351</u> | <u>\$ 1,525</u> | <u>\$ 7,469</u> | <u>\$ 9,193</u> | <u>\$ 68,040</u> |
| Accounts payable and accrued liabilities | \$ (1,281) | \$ (361) | \$ (50) | \$ — | \$ (308) | \$ (2,000) |
| Taxes payable | (7) | 1 | — | — | (469) | (475) |
| Operating lease liability, current | (501) | (373) | (29) | — | (323) | (1,226) |
| Other current liabilities | (161) | — | — | — | 3 | (158) |
| Total current liabilities classified as held-for-sale | (1,950) | (733) | (79) | — | (1,097) | (3,859) |
| Debt, non-current | (3,799) | — | — | — | — | (3,799) |
| Operating lease liability, non-current | (14,348) | (1,879) | (342) | — | (2,130) | (18,699) |
| Deferred tax liabilities | — | — | — | — | 5 | 5 |
| Total liabilities classified as held-for-sale | <u>\$ (20,097)</u> | <u>\$ (2,612)</u> | <u>\$ (421)</u> | <u>\$ —</u> | <u>\$ (3,222)</u> | <u>\$ (26,352)</u> |

(1) On August 11, 2020, the Company entered into a transaction of sale for MMRC for \$1,500. Refer to Note 17 for further information.

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4. INTANGIBLE ASSETS AND GOODWILL

Intangible assets

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

| Intangibles | June 30, 2020 | December 31, 2019 |
|--|----------------------|--------------------------|
| Finite-lived intangible assets: | | |
| Management contracts | \$ 19,580 | \$ 52,438 |
| Customer relationships | — | 4,600 |
| Developed technology | — | 3,100 |
| | <u>19,580</u> | <u>60,138</u> |
| Accumulated amortization on finite-lived intangible assets: | | |
| Management contracts | (4,180) | (5,750) |
| Customer relationships | — | (649) |
| Developed technology | — | (114) |
| | <u>(4,180)</u> | <u>(6,513)</u> |
| Finite-lived intangible assets, net | 15,400 | 53,625 |
| Indefinite-lived intangible assets | | |
| Cannabis licenses | 130,260 | 232,347 |
| | <u>130,260</u> | <u>232,347</u> |
| Total intangibles, net | \$ 145,660 | \$ 285,972 |

The intangible assets balance as of June 30, 2020 excludes intangible assets reclassified to assets held for sale. Refer to Note 3 for further information. The average useful life of finite-lived intangible assets ranges from six to nine years.

Impairment of intangible assets

In December 2019, a novel strain of coronavirus emerged in Wuhan, China, which since then, has spread worldwide. As a result of the recent global economic impact and uncertainty due to the COVID-19 pandemic, the Company concluded a triggering event had occurred as of March 31, 2020, and accordingly, performed interim impairment testing.

During the six months ended June 30, 2020, the Company performed a quantitative analysis and concluded certain of the indefinite-lived cannabis licenses had a fair value below the carrying value. Accordingly, during the six months ended June 30, 2020 and 2019, the Company recognized impairment charges of \$92,798 and nil, respectively, with respect to its indefinite-lived intangible assets at Acreage Florida, Inc., Form Factory Holdings, LLC and Kanna, Inc. The charge is recognized in *Loss on impairment* on the Statements of Operations.

The Company evaluated the recoverability of the related finite-lived intangible assets to be held and used by comparing the carrying amount of the assets to the future net undiscounted cash flows expected to be generated by the assets, or comparable market sales data to determine if the carrying value is recoverable. During the six months ended June 30, 2020 and 2019, the Company recognized impairment charges of \$8,324 and nil, respectively, with respect to its finite-lived intangible assets at Form Factory and CWG Botanicals, Inc. The charge is recognized in *Loss on impairment* on the Statements of Operations.

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.

WCM Refinancing

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On March 6, 2020, the Company closed on 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 individuals. In connection with the transaction, WCM converted from a non-profit corporation to a for-profit corporation. Refer to Note 6 for further details. Concurrently, a portion of the management contract was converted into a promissory note of \$18,800 in *Notes receivable, non-current* on the Statements of Financial Position in exchange for the previously held management contract. An impairment was determined as the differential between the net carrying value of the previously held management contract and the promissory note received in exchange. This resulted in an impairment loss to finite-lived intangible assets of \$9,395 in *Loss on impairment* on the Statements of Operations for the six months ended June 30, 2020.

Amortization expense recorded during the three and six months ended June 30, 2020 was \$542 and \$1,707, respectively. Amortization expense recorded during the three and six months ended June 30, 2019 was \$1,674 and \$2,335, respectively.

Expected annual amortization expense for existing intangible assets subject to amortization at June 30, 2020 is as follows for each of the next five fiscal years:

| Amortization of Intangibles | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Amortization expense | \$ 1,082 | \$ 2,164 | \$ 2,164 | \$ 2,164 | \$ 2,164 |

Goodwill

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

| Goodwill | Total |
|------------------------------|-------------------|
| December 31, 2019 | \$ 105,757 |
| Acquisitions | — |
| Impairment | (76,890) |
| Less: Goodwill held for sale | (2,192) |
| June 30, 2020 | \$ 26,675 |

Also as a result of the recent global economic impact and uncertainty due to the COVID-19 pandemic, the Company concluded a triggering event had occurred as of March 31, 2020, and accordingly, performed interim impairment testing.

During the six months ended June 30, 2020 and 2019, the Company recognized impairment charges of \$65,304 and nil, respectively, with respect to its goodwill related to Form Factory. The Company applied the DCF approach to determine the fair value of Form Factory. The charge is recognized in *Loss on impairment* on the Statements of Operations.

Pursuant to the WCM refinancing described above, the Company recognized an impairment loss to goodwill of \$11,586 on *Loss of impairment* on the Statements of Operations for the six months ended June 30, 2020. This was determined as the differential between the net carrying value of the previously held management contract and the promissory note received in exchange.

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5. INVESTMENTS

The carrying values of the Company's investments in the Statements of Financial Position as of June 30, 2020 and December 31, 2019 are as follows:

| Investments | June 30, 2020 | December 31, 2019 |
|------------------------------------|-----------------|-------------------|
| Investments held at FV-NI | 4,613 | 4,376 |
| Equity method investments | 98 | 123 |
| Total long-term investments | \$ 4,711 | \$ 4,499 |

Income (loss) from investments, net in the Statements of Operations during the three and six months ended June 30, 2020 and 2019 is as follows:

| Investment income | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-----------------|---------------------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Short-term investments | \$ — | \$ 238 | \$ — | \$ 738 |
| Investments held at FV-NI | 23 | (737) | 263 | 466 |
| Equity method investments | (19) | — | (25) | 1,024 |
| Income (loss) from investments, net | \$ 4 | \$ (499) | \$ 238 | \$ 2,228 |

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 six months ended June 30, 2019, short-term investments in U.S. Treasury bills in the amount of \$149,828 matured.

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 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 June 30, 2020 and December 31, 2019, the Company's equity method investments were not deemed significant to the Company's Financial Statements and as such, additional disclosure is omitted.

6. NOTES RECEIVABLE

Notes receivable as of June 30, 2020 and December 31, 2019 consisted of the following:

| | June 30, 2020 | December 31, 2019 |
|---------------------------------|------------------|-------------------|
| Notes receivable | \$ 92,344 | \$ 75,851 |
| Interest receivable | 4,052 | 5,774 |
| Total notes receivable | \$ 96,396 | \$ 81,625 |
| Less: Notes receivable, current | 2,094 | 2,146 |
| Notes receivable, non-current | \$ 94,302 | \$ 79,479 |

Interest income on notes receivable during the three and six months ended June 30, 2020 totaled \$1,830 and \$3,477, respectively. Interest income on notes receivable during the three and six months ended June 30, 2019 totaled \$1,001 and \$1,731, respectively.

On March 6, 2020, the Company closed on a refinancing, transaction and conversion related to Northeast Patients Group, operating as WCM, a medical cannabis business in Maine, resulting in ownership of WCM by three individuals. In connection with the

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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 individuals 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. As of June 30, 2020, the Company recorded a holdback reserve of \$917 for the State of Maine as a result of finalization of valuation by the State. 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 individuals also have the right at any time to put the shares to the Company on the same terms. The net equity impact to the Company was nil, and the option described above is only redeemable if permissible pursuant to Maine regulations.

On July 1, 2019, the Company entered into \$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. During the six months ended June 30, 2020, the Company wrote off the note receivable and the accrued interest of \$8,000 and \$161, respectively, as the Company determined that the note was not collectible and recorded a loss on notes receivable of \$8,161.

The Company provides revolving lines of credit to several entities under management services agreements which are included in notes receivable. The relevant terms and balances are detailed below.

Lines of Credit

| Counterparty | Maximum Obligation | Interest Rate | Balance as of | |
|--|--------------------|---------------|------------------|-------------------|
| | | | June 30, 2020 | December 31, 2019 |
| Greenleaf ⁽¹⁾ | \$ 29,286 | 3.25% - 4.75% | \$ 28,336 | \$ 22,569 |
| CWG Botanicals, Inc. (“CWG”) ⁽²⁾ | 12,000 | 8% | 9,767 | 9,152 |
| Compassionate Care Foundation, Inc. (“CCF”) ⁽³⁾ | 12,500 | 18% | — | 7,152 |
| Prime Alternative Treatment Center, Inc. (“PATC”) ⁽⁴⁾ | 4,650 | 15% | 4,650 | 4,650 |
| Patient Centric of Martha’s Vineyard, Ltd. (“PCMV”) ⁽⁵⁾ | 9,000 | 15% | 6,069 | 5,758 |
| Health Circle, Inc. ⁽⁶⁾ | 8,000 | 15% | 4,331 | 3,988 |
| Total | \$ 75,436 | | \$ 53,153 | \$ 53,269 |

(1) During the year ended December 31, 2018, the Company extended lines of credit to Greenleaf Apothecaries, LLC, Greenleaf Therapeutics, LLC and Greenleaf Gardens, LLC (together “Greenleaf”), which mature in June 2023.

(2) The revolving line of credit due from CWG matures in December 2021.

(3) In September 2018, the Company entered into a management agreement to provide certain advisory and consulting services to CCF for a monthly fee based on product sales.

On November 15, 2019, certain changes in New Jersey state laws occurred to allow for-profit entities to hold cannabis licenses and certain regulatory approvals. Accordingly, the Company entered into a Reorganization Agreement with CCF, whereby the management agreement will terminate and any outstanding obligations on the line of credit will convert to a direct ownership interest in CCF, which will convert to a for-profit entity. On June 26, 2020, the transactions contemplated by the Reorganization Agreement closed and the line of credit converted into equity in CCF’s successor entity. Please see Note 3 for additional details.

(4) Prime Alternative Treatment Center, Inc. (“PATC”) is a non-profit license holder in New Hampshire to which the Company’s consolidated subsidiary PATCC provides management or other consulting services. The line of credit matures in August 2022.

(5) In November 2018, the Company entered into a services agreement with Patient Centric of Martha’s Vineyard, Ltd. (“PCMV”). The line of credit matures in November 2023. The services agreement was terminated in February 2020.

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(6) Health Circle, Inc. is a non-profit license holder in Massachusetts that formerly had a services agreement with the Company's consolidated subsidiary MA RMDS SVCS, LCC. The line of credit matures in November 2032. The services agreement was terminated in February 2020.

7. CAPITAL ASSETS, net

Net property and equipment consisted of:

| | June 30, 2020 | December 31, 2019 |
|------------------------------------|-------------------|-------------------|
| Land ⁽¹⁾ | \$ 6,490 | \$ 9,839 |
| Building | 34,366 | 34,522 |
| Right-of-use asset, finance leases | 5,954 | 5,954 |
| Construction in progress | 14,737 | 17,288 |
| Furniture, fixtures and equipment | 19,041 | 21,019 |
| Leasehold improvements | 23,398 | 22,682 |
| Capital assets, gross | \$ 103,986 | \$ 111,304 |
| Less: accumulated depreciation | (7,167) | (5,257) |
| Capital assets, net | \$ 96,819 | \$ 106,047 |

Depreciation of capital assets for the three and six months ended June 30, 2020 include \$883 and \$1,785 of depreciation expense, and \$728 and \$1,328, that was capitalized to inventory, respectively. Depreciation of capital assets for the three and six months ended June 30, 2019 include \$549 and \$796 of depreciation expense, and \$421 and \$831, that was capitalized to inventory, respectively.

(1) On May 8, 2020, the Company sold a parcel of land for a sale price of \$1,081. In connection with the transaction, the Company recorded a \$280 gain on sale at *Other loss, net* on the Statements of Operations.

8. LEASES

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 Statements of Financial Position and are expensed in the 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 | June 30, 2020 | December 31, 2019 |
|----------------------------------|--|------------------|-------------------|
| Right-of-use assets | | | |
| Operating | Operating lease right-of-use assets | \$ 36,280 | \$ 51,950 |
| Finance | Capital assets, net | 5,657 | 5,832 |
| Total right-of-use assets | | \$ 41,937 | \$ 57,782 |
| Lease liabilities | | | |
| Current | | | |
| Operating | Operating lease liability, current | \$ 2,283 | \$ 2,759 |
| Financing | Debt, current | 73 | 49 |
| Non-current | | | |
| Operating | Operating lease liability, non-current | 35,058 | 47,522 |
| Financing | Debt, non-current | 5,925 | 6,083 |
| Total lease liabilities | | \$ 43,339 | \$ 56,413 |

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| Statement of Operations Information | Classification | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------|-------------------------------|-----------------------------|-----------------|---------------------------|-----------------|
| | | 2020 | 2019 | 2020 | 2019 |
| Short-term lease expense | General and administrative | \$ 354 | \$ 188 | \$ 671 | \$ 486 |
| Operating lease expense | General and administrative | 2,430 | 1,012 | 4,450 | 1,968 |
| Finance lease expense: | | | | | |
| Amortization of right of use asset | Depreciation and amortization | 89 | 17 | (6) | 19 |
| Interest expense on lease liabilities | Interest expense | 216 | 25 | 431 | 38 |
| Sublease income | Other loss, net | — | (5) | (16) | (48) |
| Net lease cost | | <u>\$ 2,735</u> | <u>\$ 1,049</u> | <u>\$ 4,859</u> | <u>\$ 1,977</u> |

| Statement of Cash Flows Information | Classification | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 |
|---|---------------------------------------|--------------------------------|--------------------------------|
| Cash paid for operating leases | Net cash used in operating activities | \$ 3,503 | \$ 1,430 |
| Cash paid for finance leases - interest | Net cash used in operating activities | \$ 403 | \$ 38 |

The following represents the Company's future minimum payments required under existing leases with initial terms of one year or more as of June 30, 2020:

| Maturity of lease liabilities | Operating Leases | Finance Leases |
|---|------------------|------------------|
| 2020 ⁽¹⁾ | \$ 9,218 | \$ 863 |
| 2021 | 6,186 | 883 |
| 2022 | 6,043 | 904 |
| 2023 | 6,207 | 925 |
| 2024 | 6,374 | 923 |
| Thereafter | 29,472 | 18,286 |
| Total lease payments | \$ 63,500 | \$ 22,784 |
| Less: imputed interest | 24,935 | 16,786 |
| Present value of lease liabilities | \$ 38,565 | \$ 5,998 |
| Weighted average remaining lease term (years) | 10 | 23 |
| Weighted average discount rate | 11% | 14% |

⁽¹⁾ Includes minimum payments under existing operating leases currently classified as held-for-sale (Refer to Note 3 for details).

As of June 30, 2020, there have been no leases entered into that have not yet commenced.

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9. INVENTORY

| | June 30, 2020 | December 31, 2019 |
|-----------------------|----------------------|--------------------------|
| Retail inventory | \$ 1,369 | \$ 1,784 |
| Wholesale inventory | 16,039 | 11,993 |
| Cultivation inventory | 2,364 | 3,021 |
| Supplies & other | 1,572 | 1,285 |
| Total | \$ 21,344 | \$ 18,083 |

10. DEBT

The Company's debt balances consist of the following:

| Debt balances | June 30, 2020 | December 31, 2019 |
|--|----------------------|--------------------------|
| NCCRE loan | \$ 481 | \$ 492 |
| Seller's notes | 2,679 | 2,810 |
| Related party debt | — | 15,000 |
| Financing liability (related party) | 15,253 | 19,052 |
| Finance lease liabilities | 5,998 | 6,132 |
| 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 | \$ 43,486 |
| Less: current portion of debt | 47,009 | 15,300 |
| Total long-term debt | \$ 43,859 | \$ 28,186 |

The interest expense related to the Company's debt during the three and six months ended June 30, 2020 and 2019 consists of the following:

| Interest Expense | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|---------------|----------------------------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| NCCRE loan | \$ 4 | \$ 5 | \$ 9 | \$ 10 |
| Seller's notes | 72 | 101 | 144 | 201 |
| Interest expense on financing liability | 707 | — | 1,298 | — |
| Interest expense on finance lease liability | 216 | 25 | 431 | 38 |
| Interest expense on SAF loan | 387 | — | 476 | — |
| Interest expense on SAF loan collateral (related party) | 1,103 | — | 1,357 | — |
| Interest expense on convertible note | 753 | — | 753 | — |
| Interest expense on bridge loan | 491 | — | 491 | — |
| Total interest expense | \$ 3,733 | \$ 131 | \$ 4,959 | \$ 249 |

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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%.

Related party debt

During the year ended December 31, 2019, Kevin Murphy, the Chairman of the board of directors, made a non-interest bearing loan of \$15,000 to Acreage. In January 2020, he made an additional loan of \$5,000 to Acreage. These amounts were subsequently repaid in March 2020.

Financing liability

In connection with the Company’s failed sale-leaseback transaction, a financing liability was recognized equal to the cash proceeds received. The Company will recognize the cash payments made on the lease as interest expense, and the principal will be derecognized upon expiration of the lease.

SAF loan and collateral

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. Any additional draws must be fully cash collateralized as well.

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 27 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 Chairman of the board of directors, 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, a cannabis state license and 12,000 SVS shares of the Company.

The Company has determined such interest on collateral to be a mandatorily redeemable financial instrument that is recorded as a liability in accordance with ASC 480 - *Distinguishing liabilities from equity* (“ASC 480”). The liability is calculated based upon the share interest multiplied by the maturity price of \$4.50 per share. The liability amounted to \$682 as of June 30, 2020 and was recorded in *Debt, current* within the Statements of Financial Position.

Convertible note

On May 29, 2020, the Company entered into a securities purchase agreement (the “Securities Purchase Agreement”) with YA II PN, Ltd. (the “Investor”), pursuant to which the Company sold and issued \$11,000 in principal amount under a secured convertible debenture, with gross proceeds to the Company of \$10,000 before transaction fees (the “Convertible Debenture”).

The Convertible Debenture bears interest at 15% per annum and is secured by the Company’s medical cannabis dispensaries in Connecticut. The Convertible Debenture is convertible by the holder in whole or in part after September 30, 2020. Prior to September 30, 2020, the holder may convert only up to \$550 of principal amount. The Convertible Debenture may not be converted to SVS to the extent such conversion would result in the holder beneficially owning more than 4.99% of the Company’s outstanding SVS. The Convertible Debenture is convertible into Class A Subordinate Voting Shares of the Company at a conversion price of \$1.68 per share, subject to the conversion limitations described above.

The maturity date is the earlier of (i) May 29, 2021 or (ii) on the consummation of one or more debt, equity or a combination of debt and equity financing transactions in which the Company receives gross proceeds of \$40,000 or more. Management has

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accordingly accreted all discounts over the period through September 30, 2020, at which point the full redemption of the principal balance is expected to occur.

The Company recorded beneficial conversion of \$523, representing 5% of the principal amount which is currently convertible in *Share Capital* in the Statements of Shareholders' Equity, and an equivalent discount was recorded against the carrying value of the Convertible Debenture. The beneficial conversion feature was determined in accordance with ASC 470-20 - *Debt with conversion and other options* and is calculated at its intrinsic value being the difference between the conversion price and the fair value of the common stock into which the debt is convertible at the commitment date, being \$3.28 per share, multiplied by the number of shares into which the debt is convertible. The Company has the right to redeem up to 95% of the principal amount on or prior to September 29, 2020 without penalty. Pursuant to the redemption prior to September 29, 2020, the remaining 95% of the principal amount is classified as having a contingent beneficial conversion feature, valued at \$9,026 as of June 30, 2020. The excess of the fair value that the holder would receive at conversion over the proceeds received is \$10,852 as of June 30, 2020.

The Company determined the conversion feature above does not meet the characteristics of a derivative instrument in accordance with ASC 815 - *Derivatives and Hedging* ("ASC 815"), as the conversion feature is indexed to its own stock and is classified under *Share Capital* in the Statements of Stockholders' Equity. As such, there was no derivative liability associated with the Convertible Debenture under ASC 815.

For the three and six months ended June 30, 2020, the Company recorded amortization of debt discount of \$402.

Pursuant to the Securities Purchase Agreement, the Company has reserved 7,530 SVS for issuance exclusively upon conversion of the Convertible Debenture as of June 30, 2020.

Secured Bridge Loan

On June 16, 2020, the Company entered into a short-term definitive funding agreement with an institutional investor for gross proceeds of \$15,000 (less transaction costs of approximately \$943). The secured note has a maturity date of four months and bears an interest rate of 60% per annum. It is secured by, among other items, the Company's cannabis operations in Illinois, New Jersey and Florida, as well as the Company's U.S. intellectual property. In the event of default, the Company is obligated to pay the lender an additional fee of \$6,000. The Company may pre-pay the secured note without penalty or premium at any time following the 90th day after closing.

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11. SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

The table below details the change in Pubco shares outstanding by class for the six months ended June 30, 2020:

| Shareholders' Equity | Subordinate Voting Shares | Subordinate Voting Shares Held in Treasury | Proportionate Voting Shares (as converted) | Multiple Voting Shares | Total Shares Outstanding |
|--------------------------|---------------------------|--|--|------------------------|--------------------------|
| December 31, 2019 | 68,177 | (842) | 23,143 | 168 | 90,646 |
| Issuances | 7,535 | — | — | — | 7,535 |
| NCI conversions | 385 | — | — | — | 385 |
| PVS conversions | 883 | — | (883) | — | — |
| June 30, 2020 | 76,980 | (842) | 22,260 | 168 | 98,566 |

The table below details the change in Pubco shares outstanding by class for the six months ended June 30, 2019:

| 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 | 5,765 | — | — | — | 5,765 |
| NCI conversions | 1,031 | — | — | — | 1,031 |
| PVS conversions | 32,167 | — | (32,167) | — | — |
| June 30, 2019 | 60,906 | (842) | 25,728 | 168 | 85,960 |

During the six months ended June 30, 2019, the Company issued 208 SVS as compensation for consulting services expense of \$3,424, respectively, recorded in *Other equity transactions* on the Statements of Shareholders' Equity.

Warrants

A summary of the warrants activity outstanding is as follows:

| Warrants | Six Months Ended June 30, | |
|--------------------------|---------------------------|--------------|
| | 2020 | 2019 |
| Beginning balance | 2,040 | 2,259 |
| Granted | 6,085 | 4 |
| Expired | (4) | — |
| Ending balance | 8,121 | 2,263 |

On February 10, 2020, the Company raised \$27,887, net of issuance costs, from a private placement of 6,085 warrants priced at \$4.93 per unit. The warrants were automatically exercised on March 2, 2020 for no additional consideration, and each unit sold consists of one SVS voting share and one purchase warrant with an exercise price of \$5.80 and a five-year expiration. The Company evaluated the warrants for liability or equity classification in accordance with ASC 480 and determined that equity treatment was appropriate as the warrants only require settlement through the issuance of the Company's SVS which are not redeemable, and do not represent an obligation to issue a variable number of shares. Accordingly, the warrants were classified as equity and are not subject to remeasurement at each balance sheet date.

The exercise price of all other warrants outstanding as of June 30, 2020 is \$25 per share.

The weighted-average remaining contractual life of the warrants outstanding is approximately 4 years. There was no aggregate intrinsic value for warrants outstanding as of June 30, 2020.

During the six months ended June 30, 2019, the Company issued 4 warrants with a weighted-average grant date fair value of \$6.74 per share, and an expense of \$27 was recorded in General and administrative expenses in the Statements of Operations.

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The exercise price of all warrants outstanding as of June 30, 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 June 30, 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 June 30, 2020 and are convertible for 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 | June 30, 2020 | | December 31, 2019 | |
|---------------------------------------|----------------------|---------------|--------------------------|---------------|
| Current assets | \$ | 134,934 | \$ | 55,296 |
| Non-current assets | | 405,609 | | 584,812 |
| Current liabilities | | (108,412) | | (46,434) |
| Non-current liabilities | | (73,471) | | (75,219) |
| Other NCI balances | | (539) | | (1,041) |
| Accumulated equity-settled expenses | | (168,498) | | (111,934) |
| Net assets | \$ | 189,623 | \$ | 405,480 |
| HSCP/USCo2 ownership % of HSCP | | 19.2% | | 21.64% |
| Net assets allocated to USCo2/HSCP | \$ | 36,408 | \$ | 87,746 |
| Net assets attributable to other NCIs | | 539 | | 1,041 |
| Total NCI | \$ | 36,947 | \$ | 88,787 |

| HSCP Summarized Statement of Operations | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-----------------|----------------------------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net loss allocable to HSCP/USCo2 | (41,867) | (48,059) | (277,070) | (77,017) |
| HSCP/USCo2 weighted average ownership % of HSCP | 17.18% | 24.40% | 20.55% | 24.86% |
| Net loss allocated to HSCP/USCo2 | (7,193) | (11,724) | (56,938) | (19,146) |
| Net loss allocated to other NCIs | 15 | — | (515) | (5) |
| Net loss attributable to NCIs | (7,178) | (11,724) | (57,453) | (19,151) |

As of June 30, 2020, USCo2's non-voting shares owned approximately 0.57% of HSCP units. USCo2's capital structure is comprised of voting shares (approximately 70%), all of which are held by the Company, and of non-voting shares (approximately 30%) held by certain former HSCP members. Certain executive employees and profits interests holders own approximately 18.63% of HSCP units. The remaining 80.80% interest in HSCP is held by USCo and represents the members' equity attributable to shareholders of the parent.

During the six months ended June 30, 2020 and 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 the redemption of HSCP and USCo2 convertible units for Pubco shares (as shown in the table below), and resulted in a \$5,587 and \$12,180 allocation from NCI to shareholders' equity for the six months ended June 30, 2020 and 2019, respectively.

During the three and six months ended June 30, 2020, Pubco, by way of Acreage CCF New Jersey, LLC, acquired 100% of the operations of CCF for total consideration of \$20,087. (Refer to Note 3 for further information). Pursuant to the acquisition, Pubco subsequently transferred the ownership of Acreage CCF New Jersey, LLC to HSCP by way of issuance of \$10,000 HSCP units at closing price.

During the six months ended June 30, 2019, the Company made cash payments in the amount of \$4,278 to HSCP and USCo2 unit holders in satisfaction of redemption requests the Company chose to settle in cash, as well as for LLC unitholders tax liabilities in accordance with the HSCP operating agreement.

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

| Convertible Units | Six Months Ended June 30, | |
|------------------------------|---------------------------|---------------|
| | 2020 | 2019 |
| Beginning balance | 25,035 | 27,340 |
| Issuance of NCI units | — | 198 |
| Vested LLC C-1s canceled | (1,310) | (126) |
| LLC C-1s vested | 1,000 | 625 |
| NCI units settled in cash | — | (58) |
| NCI units converted to Pubco | (385) | (1,027) |
| Ending balance | 24,340 | 26,952 |

12. EQUITY-BASED COMPENSATION EXPENSE

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

| Equity-based compensation expense | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|------------------|---------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Equity-based compensation - Plan | \$ 11,302 | \$ 15,674 | \$ 25,781 | \$ 34,555 |
| Equity-based compensation - Plan (CGC Awards) | 7,181 | 314 | 11,992 | 314 |
| Equity-based compensation - other | 1,704 | 4,705 | 17,151 | 4,801 |
| Total equity-based compensation expense | \$ 20,187 | \$ 20,693 | \$ 54,924 | \$ 39,670 |

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, as amended May 7, 2019 and June 19, 2019 (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 15% of the issued and outstanding Subordinate Voting Shares of the Company.

Restricted Share Units ("RSUs")

| Restricted Share Units (Fair value information expressed in whole dollars) | Six Months Ended June 30, 2020 | |
|---|--------------------------------|--|
| | RSUs | Weighted Average Grant Date Fair Value |
| Unvested, beginning of period ⁽¹⁾ | 7,843 | \$ 15.10 |
| Granted | 4,926 | 3.60 |
| Forfeited | (2,052) | 13.15 |
| Vested | (2,736) | 11.60 |
| Unvested, end of period | 7,981 | \$ 9.70 |
| Vested and unreleased | 1,368 | 15.73 |
| Outstanding, end of period | 9,349 | \$ 10.58 |

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 \$12,684 and \$26,098 as compensation expense during the three and six months ended June 30, 2020, respectively. The fair value of RSUs vested during the three and six months ended June 30, 2020 was \$3,748 and \$7,251, respectively.

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The total weighted average remaining contractual life and aggregate intrinsic value of unvested RSUs at June 30, 2020 was approximately 2 years and \$20,112, respectively. Unrecognized compensation expense related to these awards at June 30, 2020 was \$62,919 and is expected to be recognized over a weighted average period of approximately 2 years.

There were 1,368 and 3 vested RSUs that are pending delivery or deferred as of June 30, 2020 and 2019, respectively. 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. 148 of the 1,505 RSUs vested immediately. Certain shares are subject to restriction thus a discount for lack of marketability was applied that correlates to the period of time. On March 13, 2020, the Company issued 630 RSUs to employees of the Company. All of these units vested immediately, with a fair market value of \$2.15, which was the closing price of the Company's subordinate voting shares on March 13, 2020.

(1) Equity-based compensation - Plan (CGC Awards)

Included within the RSUs during the three and six months ended June 30, 2020 are "CGC Awards" issued in connection with the RSUs which were granted in July 2019:

On June 27, 2019, pursuant to the Arrangement Agreement (as defined in Note 13), 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 in Note 13). The Company recorded \$5,587 and \$8,349 as compensation expense during the three and six months ended June 30, 2020 in connection with these awards. 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 (as defined in Note 13). 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. The Company recorded \$1,594 and \$3,643 as compensation expense during the three and six months ended June 30, 2020, respectively, in connection with these awards.

Stock options

| | Six Months Ended June 30, 2020 | |
|---|---------------------------------------|--|
| Stock Options (Exercise price expressed in whole dollars) | Options | Weighted Average Exercise Price |
| Options outstanding, beginning of period | 5,607 | \$ 21.56 |
| Granted | 191 | 5.75 |
| Forfeited | (869) | 17.29 |
| Exercised | — | — |
| Options outstanding, end of period | 4,929 | \$ 21.70 |
| Options exercisable, end of period | 2,125 | \$ 24.50 |

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 June 30, 2020 was approximately 9 years. The Company recorded \$5,799 and \$11,675 as compensation expense during the three and six months ended June 30, 2020, respectively, in connection with these awards. As of June 30, 2020, unamortized expense related to stock options totaled \$33,070 and is expected to be recognized over a weighted-average period of approximately 1 year. There was no aggregate intrinsic value for options outstanding or exercisable as of June 30, 2020.

Equity-based compensation - other

HSCP C-I 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 six months ended June 30, 2020:

| Profits Interests (Fair value information expressed in whole dollars) | Six Months Ended June 30, 2020 | |
|--|--------------------------------|--|
| | Number of Units | Weighted Average Grant Date Fair Value |
| Unvested, beginning of period | 1,000 | \$ 0.43 |
| Class C-1 units granted | — | — |
| Class C-1 units canceled | — | — |
| Class C-1 vested | (1,000) | 0.43 |
| Unvested, end of period | — | \$ — |

The Company recorded \$0 and \$70 as compensation expense in connection with these awards during the three and six months ended June 30, 2020, respectively. The fair value of Profits Interests vested during the three and six months ended June 30, 2020 was \$0 and \$1,239, respectively.

As of June 30, 2020, all Profits Interests were fully vested.

Restricted Shares (“RSs”)

In connection with the Company’s acquisition of Form Factory during 2019, 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. The Company recorded compensation expense of \$1,704 and \$17,081 during the three and six months ended June 30, 2020, respectively, in connection with these awards. During the three months ended June 30, 2020, certain employees separated from the Company, resulting in 161 RSs accelerating vesting and \$2,131 incurred in expenses. During the six months ended June 30, 2020, certain employees separated from the Company, resulting in 1,289 RSs accelerating vesting and \$17,019 incurred in expenses. The total weighted average remaining contractual life and aggregate intrinsic value of RSs at June 30, 2020 was approximately 1 year and \$184, respectively. As of June 30, 2020, unamortized expense related to RSs totaled \$150 and is expected to be recognized over a weighted average period of approximately 1 year. The total weighted average remaining contractual life and aggregate intrinsic value of RSs at June 30, 2019 was approximately 2 years and \$22,465, respectively. As of June 30, 2019, unamortized expense related to RSs totaled \$24,946 and is expected to be recognized over a weighted average period of approximately 2 years.

13. COMMITMENTS AND CONTINGENCIES

Commitments

The Company provides revolving lines of credit to several of its portfolio companies. Refer to Note 6 for further information.

Definitive agreements

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 \$12,000 based on the June 30, 2020 closing price of \$2.52 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.

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.

Canopy Growth

On June 19, 2019, the shareholders of the Company and of Canopy Growth separately approved the proposed arrangement involving the two companies (the “Existing Arrangement”), and on June 21, 2019, the Supreme Court of British Columbia granted a final order approving the Existing Arrangement. Effective June 27, 2019, the articles of the Company were amended pursuant to a plan

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of arrangement to provide that, 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”), Canopy Growth will acquire all of the issued and outstanding shares in the capital of the Company (each, an “Acreage Share”). Under the terms of 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.

Upon the occurrence of the Triggering Event and subject to the satisfaction or waiver of the conditions to closing set out in the Arrangement Agreement, Canopy Growth will 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 Acquisition as will holders of non-voting shares of USCo2.

Pursuant to the terms of the Arrangement Agreement, the Company is permitted to issue up to an additional 58,000 Subordinate Voting Shares (of which approximately 38,000 remain available for issuance as of June 30, 2020) 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.

Proposed Amendment to Canopy Growth Arrangement

On June 24, 2020, Acreage and Canopy Growth entered into a proposal agreement (the “Proposal Agreement”) which sets out, among other things, the terms and conditions upon which the parties are proposing to amend the Arrangement Agreement (the “Amended Arrangement Agreement”) and amend and restate the existing plan of arrangement (the “Amended Plan of Arrangement”). The effectiveness of the Amended Arrangement Agreement and the implementation of the Amended Plan of Arrangement is subject to the conditions set out in the Proposal Agreement, including, among others, approval by (i) the Supreme Court of British Columbia at a hearing upon the procedural and substantive fairness of the terms and conditions of the Amended Plan of Arrangement (“Court Approval”); and (ii) the shareholders of Acreage as required by applicable corporate and securities laws. Upon receipt of Acreage shareholder approval, Court Approval and the satisfaction of all other conditions set out in the Proposal Agreement, including the advance of \$50,000 to a subsidiary of Acreage pursuant to a loan, Acreage and Canopy Growth will enter into the Amended Arrangement Agreement.

The effectiveness of the Amended Arrangement Agreement and the implementation of the Amended Plan of Arrangement is also subject to additional conditions as set forth in the Proposal Agreement. Each of Acreage and Canopy Growth has made certain representations and warranties and agreed to certain covenants in the Proposal Agreement, including covenants regarding the conduct of their respective businesses prior to the Amendment Time (as defined below) that are in addition to the covenants contained in the Arrangement Agreement. In particular, the Proposal Agreement sets forth, among other things, (i) certain financial reporting obligations of Acreage from the execution of the Proposal Agreement until the earlier of the termination of the Proposal Agreement or the implementation of the Amended Plan of Arrangement (the “Interim Period”); (ii) certain restrictions on Acreage’s ability to issue any securities or incur any debt obligations during the Interim Period; (iii) a business plan for Acreage for each fiscal year ended December 31, 2020 through to December 31, 2029, and a requirement for Acreage to conduct its business in accordance with such business plan; and (iv) limitations on any public communication made by Acreage during the Interim Period.

The Proposal Agreement contains certain termination rights, including (i) in favor of both Acreage and Canopy Growth, in the event that the Acreage shareholder approval is not obtained at the special meeting of Acreage shareholders, or (ii) in favor of Canopy Growth in the event that the Acreage board of directors determines, in accordance with the Proposal Agreement to make a Change in Recommendation (as defined in the Proposal Agreement). The Proposal Agreement further provides that, upon termination of the Proposal Agreement following a Change in Recommendation, Acreage will be required to pay an expense reimbursement to Canopy Growth in the amount of \$3,000; provided however, that Acreage will not be required to make this payment if the Change in Recommendation was the result of a Purchaser Material Adverse Effect (as defined in the Arrangement Agreement).

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Upon satisfaction or waiver of the conditions set out in the Proposal Agreement, the Amending Agreement and the Amended Plan of Arrangement will be effective at 12:01 a.m. (Vancouver time) or such other time as the parties may mutually agree (the “Amendment Time”) on the date that the Amended Plan of Arrangement becomes effective. Pursuant to the Amended Plan of Arrangement, at the Amendment Time, Canopy Growth will make a cash payment of \$37,500 to the Acreage shareholders and certain holders of securities convertible or exchangeable into shares of Acreage and Acreage will complete a capital reorganization (the “Capital Reorganization”) whereby (i) each Existing SVS will be exchanged for 70.0% of a Class E subordinate voting share (each whole share, a “Fixed Share”) and 30.0% of a Class D subordinate voting share (each whole share, a “Floating Share”); (ii) each Existing PVS will be exchanged for 28 Fixed Shares and 12 Floating Shares; and (iii) each Existing MVS will be exchanged for 70.0% of a new multiple voting share (each whole share, a “Fixed Multiple Share”) and 30.0% of a Floating Share. No fractional Fixed Shares, Fixed Multiple Shares or Floating Shares will be issued pursuant to the Capital Reorganization. Each Fixed Multiple Voting Share will be entitled to 4,300 votes at all meetings of Acreage shareholders with each Fixed Share and each Floating Share will be entitled to one vote per share at such meetings.

Pursuant to the Amended Plan of Arrangement, upon the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event (the “Triggering Event Date”), Canopy Growth will, subject to the satisfaction or waiver of certain closing conditions set out in the Arrangement Agreement (i) acquire all of the issued and outstanding Fixed Shares (following the mandatory conversion of the Fixed Multiple Shares into Fixed Shares) on the basis of 30.48% of a Canopy Growth Share for each Fixed Share held at the time of the acquisition of the Fixed Shares, subject to adjustment in accordance with the terms of the Amended Plan of Arrangement (the “Canopy Call Option”); and (ii) have the right (but not the obligation) (the “Floating Call Option”), exercisable for a period of 30 days following the Triggering Event Date to acquire all of the issued and outstanding Floating Shares at a price to be determined based upon the fair market value of the Floating Shares relative to the Canopy Growth Shares on the Triggering Event Date, subject to (a) a minimum price of \$6.41; and (b) adjustment in accordance with the terms of the Amended Plan of Arrangement, to be payable, at the option of Canopy Growth, in cash or Canopy Growth Shares. The closing of the acquisition of the Floating Shares pursuant to the Floating Call Option, if exercised, will take place concurrently with the closing of the acquisition of the Fixed Shares pursuant to the Canopy Call Option, if exercised. No fractional Canopy Growth Shares will be issued pursuant to the Amended Plan of Arrangement. The Canopy Call Option and the Floating Call Option will expire 10 years from the Amendment Time.

Surety bonds

The Company has indemnification obligations with respect to surety bonds primarily used as security against non-performance in the amount of \$5,000 as of June 30, 2020, for which no liabilities are recorded on the Statements of Financial Position.

The Company is subject to other capital commitments and similar obligations. As of June 30, 2020 and 2019, such amounts were not material.

Contingencies

As of June 30, 2020, the Company has 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 as of June 30, 2020.

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 June 30, 2020, 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.

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.

Standby Equity Distribution Definitive Agreement

On May 29, 2020, the Company entered into an agreement with an institutional lender for \$50,000 of financing commitments under a Standby Equity Distribution Agreement. The investor may, at its discretion, purchase, and the Company may, at its discretion, periodically sell to the investor, up to \$50,000 of subordinate voting shares of the Company at a purchase price of 95% of the

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market price over the course of 24 months from the effective date. In consideration for entering the Standby Equity Distribution Definitive Agreement, the Company will issue the investor 200 SVS as commitment shares.

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, and oral argument was heard on September 6, 2019. The motion remains pending before the Court.

14. 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 for further information.

GreenAcreage

The Company has an investment carried at fair value through profit and loss in GreenAcreage. The Company also has an equity method investment in the management company of GreenAcreage resulting from the CEO’s board involvement. During the year ended December 31, 2019, the Company sold and subsequently leased back several of its capital assets in a transaction with GreenAcreage. The subsequent leases met the criteria for finance leases, and as such, the transactions do not qualify for sale-leaseback treatment.

On July 15, 2020, the Company entered into a definitive agreement with GreenAcreage to internalize the Company’s management operations.

Related party debt

In December 2019, the Kevin Murphy, the Chairman of the board of directors, loaned \$15,000 to the Company. In January 2020, he made an additional loan of \$5,000 to Acreage. These amounts were subsequently repaid in March 2020.

Credit agreement collateral

On March 11, 2020, the Company closed \$22,000 in borrowings pursuant to a loan transaction with 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 27 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 Chairman of the board of directors, 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, a cannabis state license and 12,000 SVS shares of the Company. Refer to Note 10 for further information.

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15. 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.

16. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net loss attributable to common shareholders of the Company by the weighted average number of outstanding shares for the period. Diluted earnings per share are calculated based on the weighted number of outstanding common shares plus the dilutive effect of stock options and warrants, as if they were exercised, and restricted stock units and profits interests, as if they vested and NCI convertible units, as if they converted.

Basic and diluted loss per share is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-------------|---------------------------|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net loss attributable to common shareholders of the Company | \$ (37,192) | \$ (37,541) | \$ (209,146) | \$ (60,918) |
| Weighted average shares outstanding - basic | 98,444 | 85,640 | 95,688 | 82,557 |
| Effect of dilutive securities | — | — | — | — |
| Weighted average shares - diluted | 98,444 | 85,640 | 95,688 | 82,557 |
| Net loss per share attributable to common shareholders of the Company - basic | \$ (0.38) | \$ (0.44) | \$ (2.19) | \$ (0.74) |
| Net loss per share attributable to common shareholders of the Company - diluted | \$ (0.38) | \$ (0.44) | \$ (2.19) | \$ (0.74) |

During the six months ended June 30, 2020, 8,121 warrants, 9,349 restricted share units, 4,929 stock options and 24,340 NCI convertible units were excluded from the calculation of net loss per share attributable to common shareholders of the Company - diluted as they were anti-dilutive. During the six months ended June 30, 2019, 2,263 warrants, 6,547 restricted share units, 4,991 stock options, 1,200 profits interests and 26,952 NCI convertible units were excluded from the calculation of net loss per share attributable to common share attributable to common shareholders of the Company - diluted as they were anti-dilutive.

17. SUBSEQUENT EVENTS

Sale of Maryland Medicinal Research & Caring, LLC

On August 11, 2020, the Company entered into a transaction of sale for MMRC for \$1,500 with a buyer. The Company, when permitted by state law, will transfer all of the issued and outstanding membership interests of MMRC to the buyer. In the interim, and subject to regulatory approval, the buyer and MMRC will enter into a management services agreement for the management and operation of MMRC until such time as the Company can transfer the equity of MMRC to the buyer.