

**ACREAGE HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an independent auditor. The accompanying unaudited interim condensed consolidated financial statements of Acreage Holdings, Inc. (“Acreage”) have been prepared by and are the responsibility of management. Acreage’s independent auditor has not performed a review of these unaudited interim condensed consolidated financial statements in accordance with GAAP.

**ACREAGE HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**PART I**

**Item 1. Financial Statements and Supplementary Data.**

(in thousands)	<u>September 30, 2020</u> (unaudited)	<u>December 31, 2019</u> (audited)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 46,363	\$ 26,505
Restricted cash	22,096	95
Short-term investments	—	—
Inventory	21,761	18,083
Notes receivable, current	2,051	2,146
Assets held-for-sale	61,634	—
Other current assets	8,992	8,506
<b>Total current assets</b>	<u>162,897</u>	<u>55,335</u>
Long-term investments	38,297	4,499
Notes receivable, non-current	96,287	79,479
Capital assets, net	96,563	106,047
Operating lease right-of-use assets	31,507	51,950
Intangible assets, net	139,524	285,972
Goodwill	31,922	105,757
Other non-current assets	3,267	2,638
<b>Total non-current assets</b>	<u>437,367</u>	<u>636,342</u>
<b>TOTAL ASSETS</b>	<u>\$ 600,264</u>	<u>\$ 691,677</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$ 43,910	\$ 32,459
Taxes payable	14,209	4,740
Interest payable	4,683	291
Operating lease liability, current	2,482	2,759
Debt, current	37,097	15,300
Liabilities related to assets held-for-sale	22,563	—
Other current liabilities	7,449	1,604
<b>Total current liabilities</b>	<u>132,393</u>	<u>57,153</u>
Debt, non-current	121,703	28,186
Operating lease liability, non-current	30,182	47,522
Deferred tax liability	34,938	63,997
Other liabilities	2	25
<b>Total non-current liabilities</b>	<u>186,825</u>	<u>139,730</u>
<b>TOTAL LIABILITIES</b>	<u>319,218</u>	<u>196,883</u>
Commitments and contingencies (Note 13)		
Common stock, no par value (Note 11) - unlimited authorized, 100,746 and 90,646 issued and outstanding, respectively	—	—
Additional paid-in capital	706,743	615,678
Treasury stock, 842 common stock held in treasury	(21,054)	(21,054)
Accumulated deficit	(433,511)	(188,617)
<b>Total Acreage Shareholders' equity</b>	<u>252,178</u>	<u>406,007</u>
Non-controlling interests	28,868	88,787
<b>TOTAL EQUITY</b>	<u>281,046</u>	<u>494,794</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 600,264</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)	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b>REVENUE</b>				
Retail revenue, net	\$ 23,914	\$ 15,306	\$ 61,362	\$ 38,566
Wholesale revenue, net	7,798	6,696	21,513	13,639
Other revenue, net	30	400	164	839
<b>Total revenues, net</b>	<u>31,742</u>	<u>22,402</u>	<u>83,039</u>	<u>53,044</u>
Cost of goods sold, retail	(14,134)	(9,548)	(37,004)	(23,622)
Cost of goods sold, wholesale	(4,133)	(3,160)	(11,395)	(6,795)
Total cost of goods sold	<u>(18,267)</u>	<u>(12,708)</u>	<u>(48,399)</u>	<u>(30,417)</u>
<b>Gross profit</b>	<u>13,475</u>	<u>9,694</u>	<u>34,640</u>	<u>22,627</u>
<b>OPERATING EXPENSES</b>				
General and administrative	14,819	12,977	40,237	41,039
Compensation expense	8,306	11,801	30,740	29,542
Equity-based compensation expense	10,445	28,174	65,369	67,844
Marketing	46	1,151	1,514	3,153
Loss on impairment	—	—	187,775	—
Loss on notes receivable	—	—	8,161	—
Write down of assets held-for-sale	2,893	—	11,003	—
Depreciation and amortization	1,396	2,182	4,888	5,313
Total operating expenses	<u>37,905</u>	<u>56,285</u>	<u>349,687</u>	<u>146,891</u>
<b>Net operating loss</b>	<u>\$ (24,430)</u>	<u>\$ (46,591)</u>	<u>\$ (315,047)</u>	<u>\$ (124,264)</u>
(Loss) income from investments, net	(433)	(1,458)	(195)	770
Interest income from loans receivable	1,606	1,190	5,083	2,921
Interest expense	(6,147)	(96)	(11,106)	(345)
Other loss, net	(8,806)	(220)	(9,003)	(2,528)
Total other (loss) income	<u>(13,780)</u>	<u>(584)</u>	<u>(15,221)</u>	<u>818</u>
<b>Loss before income taxes</b>	<u>\$ (38,210)</u>	<u>\$ (47,175)</u>	<u>\$ (330,268)</u>	<u>\$ (123,446)</u>
Income tax (expense) benefit	(3,826)	(2,327)	21,633	(6,125)
<b>Net loss</b>	<u>\$ (42,036)</u>	<u>\$ (49,502)</u>	<u>\$ (308,635)</u>	<u>\$ (129,571)</u>
Less: net loss attributable to non-controlling interests	(6,288)	(10,786)	(63,741)	(29,937)
<b>Net loss attributable to Acreage Holdings, Inc.</b>	<u>\$ (35,748)</u>	<u>\$ (38,716)</u>	<u>\$ (244,894)</u>	<u>\$ (99,634)</u>
<b>Net loss per share attributable to Acreage Holdings, Inc. - basic and diluted:</b>	<u>\$ (0.35)</u>	<u>\$ (0.43)</u>	<u>\$ (2.49)</u>	<u>\$ (1.17)</u>
<b>Weighted average shares outstanding - basic and diluted</b>	103,450	89,262	98,304	84,817

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					Non- controlling Interests	Total Equity
			Share Capital	Treasury Stock	Accumulated Deficit	Shareholders' Equity			
<b>December 31, 2018</b>	—	<b>79,164</b>	<b>\$ 414,757</b>	<b>\$ (21,054)</b>	<b>\$ (38,349)</b>	<b>\$ 355,354</b>	<b>\$ 130,922</b>	<b>\$ 486,276</b>	
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)	
<b>March 31, 2019</b>	—	<b>80,220</b>	<b>\$ 438,796</b>	<b>\$ (21,054)</b>	<b>\$ (61,726)</b>	<b>\$ 356,016</b>	<b>\$ 123,855</b>	<b>\$ 479,871</b>	
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)	
<b>June 30, 2019</b>	—	<b>85,960</b>	<b>\$ 539,017</b>	<b>\$ (21,054)</b>	<b>\$ (99,267)</b>	<b>\$ 418,696</b>	<b>\$ 124,009</b>	<b>\$ 542,705</b>	
Issuances for business acquisitions/purchases of intangible assets	—	383	5,534	—	—	5,534	—	5,534	
NCI adjustments for changes in ownership	—	1,452	7,392	—	—	7,392	(7,392)	—	
Capital distributions, net	—	—	—	—	—	—	(65)	(65)	
Other equity transactions	—	261	3,353	—	—	3,353	—	3,353	
Equity-based compensation expense and related issuances	—	1,608	26,356	—	—	26,356	—	26,356	
Net loss	—	—	—	—	(38,716)	(38,716)	(10,786)	(49,502)	
<b>September 30, 2019</b>	—	<b>89,664</b>	<b>\$ 581,652</b>	<b>\$ (21,054)</b>	<b>\$ (137,983)</b>	<b>\$ 422,615</b>	<b>\$ 105,766</b>	<b>\$ 528,381</b>	

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					Non- controlling Interests	Total Equity
			Share Capital	Treasury Stock	Accumulated Deficit	Shareholders' Equity			
<b>December 31, 2019</b>	—	<b>90,646</b>	<b>\$ 615,678</b>	<b>\$ (21,054)</b>	<b>\$ (188,617)</b>	<b>\$ 406,007</b>	<b>\$ 88,787</b>	<b>\$ 494,794</b>	
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)	
<b>March 31, 2020</b>	—	<b>97,430</b>	<b>\$ 671,738</b>	<b>\$ (21,054)</b>	<b>\$ (360,571)</b>	<b>\$ 290,113</b>	<b>\$ 45,058</b>	<b>\$ 335,171</b>	
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)	
<b>June 30, 2020</b>	<b>3,861</b>	<b>98,566</b>	<b>\$ 693,425</b>	<b>\$ (21,054)</b>	<b>\$ (397,763)</b>	<b>\$ 274,608</b>	<b>\$ 36,947</b>	<b>\$ 311,555</b>	
Issuances upon conversion of debenture	—	327	550	—	—	550	—	550	
NCI adjustments for changes in ownership	—	198	1,791	—	—	1,791	(1,791)	—	
Other equity transactions	—	212	532	—	—	532	—	532	
Equity-based compensation expense and related issuances	—	1,443	10,445	—	—	10,445	—	10,445	
Net loss	—	—	—	—	(35,748)	(35,748)	(6,288)	(42,036)	
<b>September 30, 2020</b>	<b>3,861</b>	<b>100,746</b>	<b>\$ 706,743</b>	<b>\$ (21,054)</b>	<b>\$ (433,511)</b>	<b>\$ 252,178</b>	<b>\$ 28,868</b>	<b>\$ 281,046</b>	

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

# ACREAGE HOLDINGS, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Nine Months Ended September 30,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (308,635)	\$ (129,571)
Adjustments for:		
Depreciation and amortization	4,888	5,313
Equity-settled expenses, including compensation	65,901	73,047
Gain on business divestiture	(217)	—
(Gain) loss on disposal of capital assets	(75)	10
Loss on impairment	187,775	—
Loss on notes receivable	8,161	—
Bad debt expense	194	—
Non-cash interest expense	3,754	—
Non-cash operating lease expense	709	1,064
Deferred tax benefit	(32,141)	(407)
Non-cash loss from investments, net	195	22
Write-down of assets held-for-sale	11,003	—
Change, net of acquisitions in:		
Inventory	(1,914)	(5,346)
Other assets	1,110	(3,908)
Interest receivable	(1,286)	(3,179)
Accounts payable and accrued liabilities	1,384	6,477
Taxes payable	9,742	2,279
Interest payable	4,392	(320)
Other liabilities	852	(1,184)
Net cash used in operating activities	<u>\$ (44,208)</u>	<u>\$ (55,703)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of capital assets	\$ (7,904)	\$ (32,276)
Investments in notes receivable	(14,193)	(24,557)
Collection of notes receivable	235	3,138
Cash paid for long-term investments	(34,019)	(4,158)
Proceeds from business divestiture	997	—
Proceeds from sale of capital assets	1,160	172
Business acquisitions, net of cash acquired	(9,983)	(21,205)
Purchases of intangible assets	—	(58,488)
Deferred acquisition costs and deposits	—	2,076
Distributions from investments	26	137
Proceeds from purchase of short-term investments	—	149,828
Net cash (used in) provided by investing activities	<u>\$ (63,681)</u>	<u>\$ 14,667</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from related party debt	5,000	—
Repayment of related party loan	(20,000)	—
Proceeds from financing	129,000	—
Deferred financing costs paid	(3,317)	—
Proceeds from issuance of private placement units, net	27,887	—
Collateral received from financing agreement	22,000	—

*See accompanying notes to Unaudited Condensed Consolidated Financial Statements*

# ACREAGE HOLDINGS, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Settlement of taxes withheld	—	(9,727)
Repayment of debt	(10,822)	(12,179)
Capital distributions, net	—	(4,363)
Net cash provided by (used in) financing activities	\$ 149,748	\$ (26,269)
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 41,859	\$ (67,305)
Cash, cash equivalents and restricted cash - Beginning of period	26,600	105,038
Cash, cash equivalents and restricted cash - End of period	\$ 68,459	\$ 37,733

(in thousands)	Nine Months Ended September 30,	
	2020	2019
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid - non-lease	\$ 988	\$ 593
Income taxes paid	867	4,253
<b>OTHER NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Capital assets not yet paid for	\$ 5,625	\$ 281
Issuance of Class D units for land	—	264
Issuance of SVS for operating lease	—	3,353
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)	3,077	18,377
Beneficial conversion feature (Note 10)	523	—
Convertible note conversion	550	—
Unpaid debt issuance costs	4,968	—

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)

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### 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 Class E subordinate voting shares (“Fixed Shares”) and Class D subordinate voting shares (“Floating Shares”) are listed on the Canadian Securities Exchange under the symbols “ACRG.A.U” and “ACRG.B.U”, respectively, quoted on the OTCQX under the symbols “ACRHF” and “ACRDF”, respectively, and traded on the Frankfurt Stock Exchange under the symbols “0VZ1” and “0VZ2”, respectively. The Company indirectly owns, operates and has contractual relationships with cannabis cultivation facilities, dispensaries and other cannabis-related companies in 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 the reverse takeover (“RTO”) transaction described below.

The Company’s principal place of business is located at 450 Lexington Avenue, #3308, 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 business combination agreement (the “Business Combination Agreement”) whereby the parties thereto 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 acquiror. On November 14, 2018, the parties to the Business Combination 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”) implemented the Prior Plan of Arrangement (as defined in Note 13) contemplated by the Original Arrangement Agreement (as defined in Note 13). Pursuant to the Prior Plan of Arrangement, Canopy Growth was granted an option to acquire all of the issued and outstanding shares of the Company in exchange for the payment of 0.5818 of a common share in the capital of Canopy Growth for each Class A subordinate voting share (each, a “SVS”) held (with the Class B proportionate voting shares (the “PVS”) and Class C multiple voting shares (the “MVS”) being automatically converted to SVS immediately prior to consummation of the Acquisition (as defined in Note 13), which original exchange ratio was subject to adjustment in accordance with the Original Arrangement Agreement. Canopy Growth was required to exercise the option 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”) and, subject to the satisfaction or waiver of certain closing conditions set out in the Original Arrangement Agreement, Canopy Growth was required to acquire all of the issued and outstanding SVS (following the mandatory conversion of the PVS and MVS into SVS).

On June 24, 2020, Canopy Growth and the Company entered into an agreement to, among other things, amend the terms of the Original Arrangement Agreement and the terms of the Prior Plan of Arrangement (the “Amended Arrangement”). On September 16, 2020, the Company’s shareholders voted in favor of a special resolution authorizing and approving the terms of, among other things, the Amended Arrangement. Subsequently, on September 18, 2020, the Company obtained a final order from the Supreme Court of British Columbia approving the Amended Arrangement, and on September 23, 2020 the Company and Canopy Growth entered into the Amending Agreement (as defined in Note 13) and implemented the Amended Arrangement. Pursuant to the Amended Arrangement, the Company’s articles were amended to create the Fixed Shares, the Floating Shares and the Class



# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

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F multiple voting shares (the “Fixed Multiple Shares”), and each outstanding SVS was exchanged for 0.7 of a Fixed Share and 0.3 of a Floating Share, each outstanding PVS was exchanged for 28 Fixed Shares and 12 Floating Shares, and each outstanding MVS was exchanged for 0.7 of a Fixed Multiple Share and 0.3 of a Floating Share. 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 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation and going concern

The Unaudited Condensed Consolidated Financial Statements of Acreage have been prepared in accordance with 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 September 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 its 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), (v) the Standby Equity Distribution Agreement described in Note 13 of the Unaudited Condensed Consolidated Financial Statements and (vi) the anticipated Non-Core Divestitures as described in Note 3.

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 it will be successful in accomplishing any of the Company’s 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 the Company’s need to raise additional capital on an immediate basis.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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### 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 dated May 29, 2020 and the amendment thereto on Form 10-K/A dated August 14, 2020, as filed with the Securities and Exchange Commission (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.

### 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 \$46,363 and \$22,096 as of September 30, 2020, respectively, and \$26,505 and \$95 as of December 31, 2019, respectively.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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### 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

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.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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### 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 September 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 44,056 and 41,642 anti-dilutive shares outstanding as of September 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.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

### 3. ACQUISITIONS, DIVESTITURES AND ASSETS HELD FOR SALE

#### Acquisitions

During the nine months ended September 30, 2020, the Company completed the following business combination below. The preliminary purchase price allocation is as follows:

<b>Purchase Price Allocation</b>	<b>CCF (1)</b>
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	5,247
Intangible assets - cannabis licenses	10,000
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)
<b>Fair value of net assets acquired</b>	<b>\$ 20,087</b>
Consideration paid:	
Cash	10,000
Settlement of pre-existing relationship	10,087
<b>Total consideration</b>	<b>\$ 20,087</b>

(1) On June 26, 2020, a subsidiary of 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.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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

<b>Purchase Price Allocation</b>	<b>Thames Valley (1)</b>	<b>NCC (2)</b>	<b>Form Factory (3)</b>	<b>Total</b>
<b>Assets acquired:</b>				
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	66,199	73,989
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
<b>Liabilities assumed:</b>				
Accounts payable and accrued liabilities	(121)	(24)	(1,572)	(1,717)
Other current liabilities	—	(621)	(74)	(695)
Debt	—	—	(494)	(494)
Operating lease liability	—	—	(10,477)	(10,477)
Deferred tax liability	(3,397)	(465)	(14,515)	(18,377)
Other liabilities	—	(175)	(23)	(198)
<b>Fair value of net assets acquired</b>	<b>\$ 15,072</b>	<b>\$ 6,877</b>	<b>\$ 107,016</b>	<b>\$ 128,965</b>
<b>Consideration paid:</b>				
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
<b>Total consideration</b>	<b>\$ 15,072</b>	<b>\$ 6,877</b>	<b>\$ 107,016</b>	<b>\$ 128,965</b>
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, a subsidiary of the Company acquired 100% of Thames Valley Apothecary, LLC (“Thames Valley”), a dispensary license holder in Connecticut.

(2) On March 4, 2019, a subsidiary of 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 nine months ended September 30, 2019.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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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.

(3) On April 16, 2019, a subsidiary of 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 nine months ended September 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’s subsidiaries make advance payments to certain acquisition targets for which the transfer is pending certain regulatory approvals prior to the acquisition date.

As of September 30, 2020 and December 31, 2019, the Company’s subsidiaries had no deferred acquisition costs outstanding.

### Divestitures

On May 8, 2020, a subsidiary of 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 nine months ended September 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 22nd & Burn, Inc., The Firestation 23, Inc. and East 11th Incorporated, collectively (“Cannabliss”). As further disposal groups, the Company has identified certain assets owned in HSCP Oregon, LLC (comprising Medford, Powell and Springfield) and Michigan as held-for-sale.

In accordance to 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 charges of \$2,893 and \$11,003 within *Write down of assets held-for-sale* on the Statements of Operations for the three and nine

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

months ended September 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 September 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.

	September 30, 2020								
	Acreage Florida, Inc.	Kanna, Inc.	MMRC <sup>(1)</sup>	Michigan	OR - Cannabliss	OR - Medford	OR - Powell	OR - Springfield	Total
Inventory	\$ 653	\$ —	\$ —	\$ —	\$ 347	\$ 696	\$ 140	\$ 96	\$ 1,932
Notes receivable, current	—	—	—	—	—	32	—	—	32
Other current assets	174	—	30	—	1	—	—	—	205
Total current assets classified as held-for-sale	827	—	30	—	348	728	140	96	2,169
Capital assets, net	4,999	1,156	286	7,469	67	2,252	7	16	16,252
Operating lease right-of- use assets	10,305	944	362	—	645	321	164	319	13,060
Intangible assets, net	26,190	970	801	—	—	—	—	—	27,961
Goodwill	—	—	—	—	2,192	—	—	—	2,192
Total assets classified as held for sale	\$ 42,321	\$ 3,070	\$ 1,479	\$ 7,469	\$ 3,252	\$ 3,301	\$ 311	\$ 431	\$ 61,634
Accounts payable and accrued liabilities	\$ (317)	\$ (240)	\$ (7)	\$ —	\$ (190)	\$ —	\$ —	\$ —	\$ (754)
Taxes payable	—	1	—	—	(292)	—	—	—	(291)
Operating lease liability, current	(489)	(241)	(31)	—	(157)	(128)	(116)	(39)	(1,201)
Other current liabilities	(187)	—	—	—	4	—	—	—	(183)
Total current liabilities classified as held-for-sale	(993)	(480)	(38)	—	(635)	(128)	(116)	(39)	(2,429)
Debt, non-current	(3,799)	—	—	—	—	—	—	—	(3,799)
Operating lease liability, non-current	(14,229)	(676)	(331)	—	(456)	(313)	(54)	(280)	(16,339)
Deferred tax liabilities	—	—	—	—	4	—	—	—	4
Total liabilities classified as held-for-sale	\$ (19,021)	\$ (1,156)	\$ (369)	\$ —	\$ (1,087)	\$ (441)	\$ (170)	\$ (319)	\$ (22,563)

(1) On August 11, 2020, a subsidiary of the Company entered into a transaction of sale for MMRC for \$1,500 with a buyer. The Company's applicable subsidiary, 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.



# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

### 4. INTANGIBLE ASSETS AND GOODWILL

#### *Intangible assets*

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

<b>Intangibles</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
<b>Finite-lived intangible assets:</b>		
Management contracts	\$ 19,580	\$ 52,438
Customer relationships	—	4,600
Developed technology	—	3,100
	<u>19,580</u>	<u>60,138</u>
<b>Accumulated amortization on finite-lived intangible assets:</b>		
Management contracts	(4,721)	(5,750)
Customer relationships	—	(649)
Developed technology	—	(114)
	<u>(4,721)</u>	<u>(6,513)</u>
<b>Finite-lived intangible assets, net</b>	<b>14,859</b>	<b>53,625</b>
<b>Indefinite-lived intangible assets</b>		
Cannabis licenses	124,665	232,347
<b>Total intangibles, net</b>	<b>\$ 139,524</b>	<b>\$ 285,972</b>

The intangible assets balance as of September 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 five to eight 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 nine months ended September 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 nine months ended September 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 nine months ended September 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. (“CWG”). The charge is recognized in *Loss on impairment* on the Statements of Operations.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

These impairments resulted in the recognition of a tax provision benefit and an associated reversal of deferred tax liabilities of \$31,473 during the nine months ended September 30, 2020.

### WCM Refinancing

On March 6, 2020, a subsidiary of 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 nine months ended September 30, 2020.

Amortization expense recorded during the three and nine months ended September 30, 2020 was \$541 and \$2,248, respectively. Amortization expense recorded during the three and nine months ended September 30, 2019 was \$1,579 and \$3,914, respectively.

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

<b>Amortization of Intangibles</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Amortization expense	\$ 541	\$ 2,164	\$ 2,164	\$ 2,164	\$ 2,164

### *Goodwill*

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

<b>Goodwill</b>	<b>Total</b>
<b>December 31, 2019</b>	<b>\$ 105,757</b>
Acquisitions	5,247
Impairment	(76,890)
Less: Goodwill held for sale	(2,192)
<b>September 30, 2020</b>	<b>\$ 31,922</b>

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 nine months ended September 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 discounted cash flow 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 nine months ended September 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.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

### 5. INVESTMENTS

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

<b>Investments</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Investments held at FV-NI	5,226	4,376
Equity method investments	33,071	123
<b>Total long-term investments</b>	<b>\$ 38,297</b>	<b>\$ 4,499</b>

(Loss) income from investments, net in the Statements of Operations during the three and nine months ended September 30, 2020 and 2019 is as follows:

<b>Investment income</b>	<b>Three Months Ended September 30.</b>		<b>Nine Months Ended September 30.</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Short-term investments	\$ —	\$ —	\$ —	\$ 738
Investments held at FV-NI	614	(1,434)	877	(968)
Equity method investments	(1,047)	(24)	(1,072)	1,000
<b>(Loss) income from investments, net</b>	<b>\$ (433)</b>	<b>\$ (1,458)</b>	<b>\$ (195)</b>	<b>\$ 770</b>

#### 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 nine months ended September 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.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

### Equity method investments

The Company accounts for investments in which it can exert significant influence but does not control as equity method investments in accordance with ASC 810.

With a portion of the proceeds for the 6.1% loan received by Universal Hemp, Acreage engaged an investment advisor (the “Investment Advisor”) which, under the Investment Advisor’s sole discretion, invested on behalf of Acreage \$34,019 on September 28, 2020. As a result, the Company acquired 34,019 class B units, at \$1 par value per unit, which represented 100% financial interest in an Investment Partnership Limited Partner, a Canada-based limited partnership. The Investment Partnership LP entity was independently formed by an institutional investor along with the general partner. The institutional investor is a Canadian alternative asset manager, along with its affiliates and subsidiaries (the “Institutional Investor”). The Investment Partnership General Partner and limited partner hold class A units and class B units and are owned and controlled by the Institutional Investor and the Investment Advisor, respectively.

Upon execution of the limited partnership agreement of the Investment Partnership between the Investment Advisor and Investment Partnership LP (the “Investment Agreement”), \$1,019 was distributed to the class A unitholders of the Investment Partnership. The Company through its investment with the Investment Advisor is determined to hold significant influence in accordance with ASC 810 of the Investment Partnership LP due to 1) the economic financial interest, and 2) the entitlement to matters as they pertain to ‘Extraordinary Resolution’ items as defined within the Investment Partnership Agreement. As a result, the Company accounts for the investment in Investment Partnership LP under the equity method. The Investment Partnership General Partner is controlled by an affiliated entity of the Institutional Investor.

### 7.5% Loan due 2023

On September 28, 2020 the Company received gross proceeds of \$33,000 (less transaction costs of approximately \$959) from an institutional lender (the “Institutional Lender”) and used a portion of the proceeds of this loan to retire its short-term \$11,000 convertible note (as described above). The loan is unsecured, matures in three years and bears interest at a 7.5% annual interest rate. The Institutional Lender is controlled by the class A and class B unitholders of the Investment Partnership LP. The Investment Partnership LP is an investor in the Institutional Lender.

## 6. NOTES RECEIVABLE

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Notes receivable	\$ 93,575	\$ 75,851
Interest receivable	4,763	5,774
<b>Total notes receivable</b>	<b>\$ 98,338</b>	<b>\$ 81,625</b>
Less: Notes receivable, current	2,051	2,146
Notes receivable, non-current	<u>\$ 96,287</u>	<u>\$ 79,479</u>

Interest income on notes receivable during the three and nine months ended September 30, 2020 totaled \$1,606 and \$5,083, respectively. Interest income on notes receivable during the three and nine months ended September 30, 2019 totaled \$1,190 and \$2,921, respectively.

On March 6, 2020, a subsidiary of 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

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

connection with the transaction, WCM converted from a non-profit corporation to a for-profit corporation. WCM previously had a series of agreements with Wellness Pain & Management Connection LLC (“WPMC”), which resulted in an outstanding balance of \$18,800 due to WPMC as of closing of this transaction. A restated consulting agreement was put in place, whereby WCM agrees to pay a fixed annual fee of \$120, payable monthly, in exchange for a suite of consulting services. In addition, a promissory note payable to WPMC was signed in the amount of \$18,800 to convert the existing payment due into a fixed, secured debt obligation.

In order to fund the transaction of WCM, a subsidiary of the Company created a new Maine corporation, named Maine HSCP, Inc. (“Maine HSCP”). At closing, a subsidiary of 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 September 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’s relevant subsidiary 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’s subsidiary 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, a subsidiary of 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’s applicable subsidiary 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 nine months ended September 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 indirectly 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	
			September 30, 2020	December 31, 2019
Greenleaf <sup>(1)</sup>	\$ 31,200	3.25% - 4.75%	\$ 29,085	\$ 22,569
CWG <sup>(2)</sup>	12,000	8%	9,767	9,152
CCF <sup>(3)</sup>	12,500	18%	—	7,152
Prime Alternative Treatment Center, Inc. (“PATC”) <sup>(4)</sup>	4,650	15%	4,650	4,650
Patient Centric of Martha’s Vineyard, Ltd. (“PCMV”) <sup>(5)</sup>	9,000	15%	6,594	5,758
Health Circle, Inc. <sup>(6)</sup>	8,000	15%	4,331	3,988
<b>Total</b>	<b>\$ 77,350</b>		<b>\$ 54,427</b>	<b>\$ 53,269</b>

(1) During the year ended December 31, 2018, a subsidiary of 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, a subsidiary of 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, a subsidiary of the Company entered into a Reorganization Agreement

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

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) 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, a subsidiary of the Company entered into a services agreement with PCMV. The line of credit matures in November 2023. The services agreement was terminated in February 2020.

(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:

	September 30, 2020	December 31, 2019
Land <sup>(1)</sup>	\$ 6,490	\$ 9,839
Building	34,368	34,522
Right-of-use asset, finance leases	5,572	5,954
Construction in progress	16,328	17,288
Furniture, fixtures and equipment	19,076	21,019
Leasehold improvements	23,273	22,682
<b>Capital assets, gross</b>	<b>\$ 105,107</b>	<b>\$ 111,304</b>
Less: accumulated depreciation	(8,544)	(5,257)
<b>Capital assets, net</b>	<b>\$ 96,563</b>	<b>\$ 106,047</b>

Depreciation of capital assets for the three and nine months ended September 30, 2020 include \$855 and \$2,640 of depreciation expense, and \$553 and \$1,881, that was capitalized to inventory, respectively. Depreciation of capital assets for the three and nine months ended September 30, 2019 include \$603 and \$1,399 of depreciation expense, and \$490 and \$1,321, that was capitalized to inventory, respectively.

(1) On May 8, 2020, a subsidiary of 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.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

### 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	September 30, 2020		December 31, 2019	
<b>Right-of-use assets</b>					
Operating	Operating lease right-of-use assets	\$	31,507	\$	51,950
Finance	Capital assets, net		5,194		5,832
<b>Total right-of-use assets</b>		<b>\$</b>	<b>36,701</b>	<b>\$</b>	<b>57,782</b>
<b>Lease liabilities</b>					
<b>Current</b>					
Operating	Operating lease liability, current	\$	2,482	\$	2,759
Financing	Debt, current		75		49
<b>Non-current</b>					
Operating	Operating lease liability, non-current		30,182		47,522
Financing	Debt, non-current		5,547		6,083
<b>Total lease liabilities</b>		<b>\$</b>	<b>38,286</b>	<b>\$</b>	<b>56,413</b>

Statement of Operations Information	Classification	Three Months Ended September 30,		Nine Months Ended September 30,	
		2020	2019	2020	2019
Short-term lease expense	General and administrative	\$ 437	\$ 267	\$ 1,108	\$ 753
Operating lease expense	General and administrative	2,062	1,650	6,512	3,618
<b>Finance lease expense:</b>					
Amortization of right of use asset	Depreciation and amortization	87	26	81	45
Interest expense on lease liabilities	Interest expense	190	34	621	72
Sublease income	Other loss, net	(12)	(10)	(28)	(58)
<b>Net lease cost</b>		<b>\$ 2,327</b>	<b>\$ 1,700</b>	<b>\$ 7,186</b>	<b>\$ 3,677</b>

Statement of Cash Flows Information	Classification	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
Cash paid for operating leases	Net cash used in operating activities	\$	5,803	\$	2,554
Cash paid for finance leases - interest	Net cash used in operating activities	\$	587	\$	72

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

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

<b>Maturity of lease liabilities</b>	<b>Operating Leases</b>	<b>Finance Leases</b>
2020 <sup>(1)</sup>	\$ 2,155	\$ 203
2021 <sup>(1)</sup>	7,075	823
2022	5,347	843
2023	5,187	864
2024	5,204	886
Thereafter	29,549	14,090
<b>Total lease payments</b>	<b>\$ 54,517</b>	<b>\$ 17,709</b>
Less: imputed interest	20,975	12,087
<b>Present value of lease liabilities</b>	<b>\$ 33,542</b>	<b>\$ 5,622</b>
Weighted average remaining lease term (years)	9	11
Weighted average discount rate	9%	15%

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

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

### 9. INVENTORY

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Retail inventory	\$ 1,884	\$ 1,784
Wholesale inventory	16,127	11,993
Cultivation inventory	2,351	3,021
Supplies & other	1,399	1,285
<b>Total</b>	<b>\$ 21,761</b>	<b>\$ 18,083</b>



# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

### 10. DEBT

The Company's debt balances consist of the following:

Debt balances	September 30, 2020	December 31, 2019
NCCRE loan	\$ 476	\$ 492
Seller's notes	2,581	2,810
Related party debt	—	15,000
Financing liability (related party)	15,253	19,052
Finance lease liabilities	5,622	6,132
3.55% Credit facility due 2022	19,841	—
3.55% Credit facility collateral (related party)	22,116	—
Convertible note, net of debt discount	—	—
Bridge loan	14,884	—
7.5% Loan due 2023	32,043	—
6.1% Secured debenture due 2030	45,984	—
<b>Total debt</b>	<b>\$ 158,800</b>	<b>\$ 43,486</b>
Less: current portion of debt	37,097	15,300
<b>Total long-term debt</b>	<b>\$ 121,703</b>	<b>\$ 28,186</b>

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

Interest Expense	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
NCCRE loan	\$ 5	\$ 4	\$ 14	\$ 14
Seller's notes	76	60	220	259
Financing liability (related party)	86	—	1,384	—
Finance lease liability	190	32	621	72
3.55% Credit facility due 2022	393	—	869	—
3.55% Credit facility collateral (related party)	167	—	1,524	—
Convertible note	2,119	—	2,872	—
Bridge loan	3,011	—	3,502	—
7.5% Loan due 2023	23	—	23	—
6.1% Secured debenture due 2030	77	—	77	—
<b>Total interest expense</b>	<b>\$ 6,147</b>	<b>\$ 96</b>	<b>\$ 11,106</b>	<b>\$ 345</b>

#### 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.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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### 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.

In addition, Mr. Murphy has an interest in the credit facility disclosed below under "3.55% Credit facility and collateral", in connection with which he loaned \$21,000 of the \$22,000 borrowed by the Company to the Lender (as defined below), which amount remains outstanding.

### Financing liability

In connection with the Company's failed sale-leaseback transaction in October, 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.

### 3.55% Credit facility 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.

Pursuant to the Amended Arrangement, the monthly interest on the collateral payable to Kevin Murphy was modified to cash payments for the remaining duration of the term at an interest rate of 12% per annum, payable upon maturity. The remaining interest will continue to be paid monthly in the form of 2 Fixed Shares and 1 Floating Share through the maturity date.

The Company has determined such equity 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 equity and cash liability amounted to \$60 and \$1,408, respectively as of September 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 an Investment Fund (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").

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

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The Convertible Debenture bears interest at 15% per annum and was secured by the Company's medical cannabis dispensaries in Connecticut. The Convertible Debenture was convertible by the holder in whole or in part after September 30, 2020. Prior to September 30, 2020, the holder could convert only up to \$550 of principal amount. The Convertible Debenture may not be converted to common stock to the extent such conversion would result in the holder beneficially owning more than 4.99% of the Company's outstanding common stock. The Convertible Debenture was 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. On September 4, 2020, the holder accordingly converted \$550 of the principal amount.

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 accordingly accreted all discounts over the period through September 30, 2020.

The Company recorded beneficial conversion of \$523, representing 5% of the principal amount which was 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 had the right to redeem up to 95% of the principal amount on or prior to September 29, 2020 without penalty.

On September 29, 2020, the Company retired the convertible debenture, utilizing the proceeds received from the 7.5% Loan due 2023 entered into on the same date as described below.

The Company determined the conversion feature above did 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 nine months ended September 30, 2020, the Company recorded amortization of debt discount of \$1,122 and \$1,524, respectively.

### 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 90<sup>th</sup> day after closing.

In October 2020, the Company retired the short-term definitive funding agreement and paid in aggregate \$18,050 to retire the full principal balance and accrued interest.

### 6.1% Secured debenture due 2030

On September 23, 2020, pursuant to the implementation of the Amended Arrangement (See Note 13), a subsidiary of Canopy Growth advanced gross proceeds of \$50,000 (less transaction costs of approximately \$4,025) to Universal Hemp, LLC, an affiliate

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

of the Company, pursuant to the terms of a secured debenture. In accordance with the terms of the debenture, the funds cannot be used, directly or indirectly, in connection with or for any cannabis or cannabis-related operations in the United States, unless and until such operations comply with all applicable laws of the United States. An additional \$50,000 may be advanced pursuant to the debenture subject to the satisfaction of certain conditions by Universal Hemp, LLC. The debenture bears interest at a rate of 6.1% per annum, matures 10 years from the date hereof or such earlier date in accordance with the terms of the debenture and all interest payments made pursuant to the debenture are payable in cash by Universal Hemp, LLC. The debenture is not convertible and is not guaranteed by Acreage. On September 28, 2020, \$34,019 of the proceeds was invested with an independent Investment Advisor, which has sole discretion on investment decisions of the funds, as referenced in Note 5.

### 11. SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

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

Shareholders' Equity	Subordinate Voting Shares	Subordinate Voting Shares Held in Treasury	Proportionate Voting Shares (as converted)	Multiple Voting Shares	Total Shares Outstanding
<b>December 31, 2019</b>	<b>68,177</b>	<b>(842)</b>	<b>23,143</b>	<b>168</b>	<b>90,646</b>
Issuances	9,518	—	—	—	9,518
NCI conversions	583	—	—	—	583
PVS conversions	1,231	—	(1,231)	—	—
Exchange pursuant to Amended Arrangement	(79,509)	842	(21,912)	(168)	(100,747)
<b>September 22, 2020</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

Shareholders' Equity	Fixed Shares	Floating Shares	Fixed Shares Held in Treasury	Floating Shares Held in Treasury	Fixed Multiple Shares	Total Shares Outstanding
<b>September 23, 2020</b>	<b>70,994</b>	<b>30,476</b>	<b>(589)</b>	<b>(253)</b>	<b>118</b>	<b>100,746</b>
Issuances	—	—	—	—	—	—
NCI conversions	—	—	—	—	—	—
<b>September 30, 2020</b>	<b>70,994</b>	<b>30,476</b>	<b>(589)</b>	<b>(253)</b>	<b>118</b>	<b>100,746</b>

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

Pursuant to the Amended Arrangement, on September 23, 2020, Acreage completed a capital reorganization whereby (i) each existing SVS was exchanged for 0.7 of a Fixed Share and 0.3 of a Floating Share; (ii) each existing PVS was exchanged for 28 Fixed Shares and 12 Floating Shares; and (iii) each existing MVS was exchanged for 0.7 of a Fixed Multiple Share and 0.3 of a Floating Share. No fractional Fixed Shares, Fixed Multiple Shares or Floating Shares were issued pursuant to the Capital Reorganization. See Note 13 for further information.

During the nine months ended September 30, 2020, the Company issued 327 SVS (subsequently converted to 229 and 98 Fixed Shares and Floating Shares, respectively) as a result of the conversion of \$550 of the Convertible Debenture (See Note 10), recorded in *Issuances upon conversion of debenture* on the Statements of Shareholders' Equity. The Company also issued 200 SVS (subsequently converted to 140 and 60 Fixed Shares and Floating Shares, respectively) in relation to the issuance of the commitment shares under the Standby Equity Distribution Agreement (See Note 13), recorded in *Other equity transactions* on the Statements of Shareholders' Equity.

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

Shareholders' Equity	Subordinate Voting Shares	Subordinate Voting Shares Held in Treasury	Proportionate Voting Shares (as converted)	Multiple Voting Shares	Total Shares Outstanding
<b>December 31, 2018</b>	<b>21,943</b>	<b>(842)</b>	<b>57,895</b>	<b>168</b>	<b>79,164</b>
Issuances	8,017	—	—	—	8,017
NCI conversions	2,483	—	—	—	2,483
PVS conversions	34,444	—	(34,444)	—	—
<b>September 30, 2019</b>	<b>66,887</b>	<b>(842)</b>	<b>23,451</b>	<b>168</b>	<b>89,664</b>

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

### Warrants

A summary of the warrants activity outstanding is as follows:

Warrants	January 1, 2020 to September 22, 2020	September 23, 2020 to September 30, 2020	
	SVS	Fixed Shares	Floating Shares
Beginning balance	2,040	5,684	2,436
Granted	6,085	—	—
Expired	(4)	—	—
Modification pursuant to Amended Arrangement	(8,121)	—	—
Ending Balance	—	5,684	2,436

### Warrants

#### Nine months ended September 30, 2019

	SVS
<b>Beginning balance</b>	<b>2,259</b>
Granted	4
Expired	(223)
<b>Ending balance</b>	<b>2,040</b>

On February 10, 2020, the Company raised \$27,887, net of issuance costs, from a private placement of 6,085 special warrants priced at \$4.93 per unit. Each special warrant was automatically exercised on March 2, 2020 for no additional consideration,

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

into one unit comprised of one SVS and one SVS purchase warrant with an exercise price of \$5.80 and a five-year term. Pursuant to the Amended Arrangement, the exercise price was thereafter amended to \$4.00. Refer to Note 13 for further details. 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 common stock, 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.

Pursuant to the Amended Arrangement, the exercise price of all other warrants outstanding as of September 30, 2020 is \$17.50 and \$7.50 per Fixed Share and Floating Share, respectively. Refer to Note 13 for further details.

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 September 30, 2020.

During the nine months ended September 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.

The exercise price of all warrants outstanding as of September 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 September 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 September 30, 2020 and are convertible for either 0.7 of a Fixed Share and 0.3 of a Floating 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.

<b>HSCP net asset reconciliation</b>	<b>September 30, 2020</b>		<b>December 31, 2019</b>	
Current assets	\$	159,764	\$	55,296
Non-current assets		435,581		584,812
Current liabilities		(117,838)		(46,434)
Non-current liabilities		(146,437)		(75,219)
Other NCI balances		(547)		(1,041)
Accumulated equity-settled expenses		(179,476)		(111,934)
Net assets	\$	151,047	\$	405,480
HSCP/USCo2 ownership % of HSCP		18.75 %		21.64 %
Net assets allocated to USCo2/HSCP	\$	28,321	\$	87,746
Net assets attributable to other NCIs		547		1,041
Total NCI	\$	<b>28,868</b>	\$	<b>88,787</b>

<b>HSCP Summarized Statement of Operations</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net loss allocable to HSCP/USCo2	(39,059)	(47,735)	(316,129)	(124,752)
HSCP/USCo2 weighted average ownership % of HSCP	16.10 %	22.59 %	20.00 %	23.99 %
Net loss allocated to HSCP/USCo2	(6,288)	(10,782)	(63,226)	(29,928)
Net loss allocated to other NCIs	—	(4)	(515)	(9)
Net loss attributable to NCIs	<b>(6,288)</b>	<b>(10,786)</b>	<b>(63,741)</b>	<b>(29,937)</b>

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

As of September 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 18.18% of HSCP units. The remaining 81.25% interest in HSCP is held by USCo and represents the members' equity attributable to shareholders of the parent.

During the nine months ended September 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 \$3,796 and \$4,788 allocation from NCI to shareholders' equity for the nine months ended September 30, 2020 and 2019, respectively.

During the three and nine months ended September 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 nine months ended September 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.

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

Convertible Units	Nine Months Ended September 30,	
	2020	2019
<b>Beginning balance</b>	<b>25,035</b>	<b>27,340</b>
Issuance of NCI units	—	198
Vested LLC C-1s canceled	(1,310)	(233)
LLC C-1s vested	1,000	755
NCI units settled in cash	—	(58)
NCI units converted to Pubco	(583)	(2,483)
<b>Ending balance</b>	<b>24,142</b>	<b>25,519</b>

## 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Equity-based compensation - Plan	\$ 7,607	\$ 13,673	\$ 33,388	\$ 48,228
Equity-based compensation - Plan (Plan of Arrangement Awards) <sup>(1)</sup>	2,688	10,772	14,680	11,086
Equity-based compensation - other	150	3,729	17,301	8,530
<b>Total equity-based compensation expense</b>	<b>\$ 10,445</b>	<b>\$ 28,174</b>	<b>\$ 65,369</b>	<b>\$ 67,844</b>

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

<sup>(1)</sup> In accordance with the Prior Plan of Arrangement (as defined in Note 13) with Canopy Growth, awards were granted in July 2019, and amortized based on the vesting schedule set forth herein.

### Amended Arrangement with Canopy Growth

On September 23, 2020, the Company announced the implementation of the Amended Arrangement (as defined in Note 13). Pursuant to the Amended Arrangement, the Company's articles have been amended to create new Fixed Shares, Floating Shares and Fixed Multiple Shares. Consequently, the Company's equity-based compensation was modified into new equity awards of the Company. Please refer to Note 13 for further discussion.

### 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.

Pursuant to the Amended Arrangement, the Company retained the Plan described above, the upper limit of issuances being up to an amount equal to 15% of the issued and outstanding Fixed Shares and Floating Shares of the Company.

### *Restricted Share Units ("RSUs")*

#### January 1, 2020 to September 22, 2020

Restricted Share Units (Fair value information expressed in whole dollars)	Weighted Average Grant Date Fair Value	
	RSUs	
<b>Unvested, beginning of period <sup>(1)</sup></b>	<b>7,843</b>	<b>\$ 15.10</b>
Granted	4,970	3.60
Forfeited	(2,654)	11.29
Vested	(2,998)	11.60
<b>Unvested, September 22, 2020</b>	<b>7,161</b>	<b>\$ 9.99</b>
Vested and unreleased	136	16.33
Exchange pursuant to Amended Arrangement	(7,297)	N/A
<b>Outstanding, September 22, 2020</b>	<b>—</b>	<b>\$ —</b>

#### September 23, 2020 to September 30, 2020

Restricted Share Units (Fair value information expressed in whole dollars)	Fixed Shares		Floating Shares	
	RSUs	Weighted Average Grant Date Fair Value	RSUs	Weighted Average Grant Date Fair Value
<b>Unvested, September 23, 2020 <sup>(1)</sup></b>	<b>5,012</b>	<b>\$ 9.99</b>	<b>2,148</b>	<b>\$ 9.99</b>
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	(2)	16.45	(1)	16.45
<b>Unvested, end of period</b>	<b>5,010</b>		<b>2,147</b>	
Vested and unreleased	98	16.33	42	16.33
<b>Outstanding, end of period</b>	<b>5,108</b>	<b>\$ 10.11</b>	<b>2,189</b>	<b>\$ 10.11</b>



# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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 \$5,424 and \$31,522 as compensation expense during the three and nine months ended September 30, 2020, respectively. The fair value of RSUs vested during the three and nine months ended September 30, 2020 was \$874 and \$8,125, respectively.

The total weighted average remaining contractual life and aggregate intrinsic value of unvested RSUs at September 30, 2020 was approximately 2 years and \$16,268, respectively. Unrecognized compensation expense related to these awards at September 30, 2020 was \$54,634 and is expected to be recognized over a weighted average period of approximately 2 years.

There were 140 and 43 vested RSUs that are pending delivery or deferred as of September 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 (Plan of Arrangement Awards)*

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

On June 27, 2019, pursuant to the Original 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 \$1,783 and \$10,132 as compensation expense during the three and nine months ended September 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 \$905 and \$4,548 as compensation expense during the three and nine months ended September 30, 2020, respectively, in connection with these awards.

### *Stock options*

<b>Stock Options</b> <i>(Exercise price expressed in whole dollars)</i>	<b>January 1, 2020 to September 22, 2020</b>	
	<b>Options</b>	<b>Weighted Average Exercise Price</b>
<b>Options outstanding, beginning of period</b>	<b>5,607</b>	<b>\$ 21.56</b>
Granted	191	5.75
Forfeited	(1,301)	15.59
Exercised	—	—
Modification pursuant to Amended Arrangement	(4,497)	N/A
<b>Options outstanding, September 22, 2020</b>	<b>—</b>	<b>\$ —</b>

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

Stock Options (Exercise price expressed in whole dollars)	September 23, 2020 to September 30, 2020			
	Fixed Shares		Floating Shares	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
<b>Options outstanding, September 23, 2020</b>	<b>3,148</b>	<b>\$ 15.83</b>	<b>1,349</b>	<b>\$ 6.78</b>
Granted	—	—	—	—
Forfeited	—	—	—	—
Exercised	—	—	—	—
<b>Options outstanding, end of period</b>	<b>3,148</b>	<b>\$ 15.83</b>	<b>1,349</b>	<b>\$ 6.78</b>
<b>Options exercisable, end of period</b>	<b>1,686</b>	<b>\$ 17.02</b>	<b>723</b>	<b>\$ 7.30</b>

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 September 30, 2020 was approximately 8 years. The Company recorded \$4,871 and \$16,546 as compensation expense during the three and nine months ended September 30, 2020, respectively, in connection with these awards. As of September 30, 2020, unamortized expense related to stock options totaled \$24,494 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 September 30, 2020.

### *Equity-based compensation - other*

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

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

The following table summarizes the status of unvested Profits Interests for the nine months ended September 30, 2020:

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

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

As of September 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

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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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 \$150 and \$17,231 during the three and nine months ended September 30, 2020, respectively, in connection with these awards. During the three months ended September 30, 2020, certain employees separated from the Company, resulting in 12 RSs accelerating vesting and \$150 incurred in expenses. During the nine months ended September 30, 2020, certain employees separated from the Company, resulting in 1,302 RSs accelerating vesting and \$17,169 incurred in expenses. As of September 30, 2020, all RSs were fully vested. The total weighted average remaining contractual life and aggregate intrinsic value of RSs at September 30, 2019 was approximately 2 years and \$10,103, respectively. As of September 30, 2019, unamortized expense related to RSs totaled \$21,304 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, a subsidiary of 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 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, a subsidiary of 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.

#### *Prior Plan of Arrangement with Canopy Growth*

On June 19, 2019, the shareholders of the Company and of Canopy Growth separately approved the proposed plan of arrangement (the "Prior Plan of Arrangement") involving the two companies, and on June 21, 2019, the Supreme Court of British Columbia granted a final order approving the Prior Plan of Arrangement. Effective June 27, 2019, the articles of the Company were amended pursuant to the Prior Plan of Arrangement to provide that, upon the occurrence (or waiver by Canopy Growth) of 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 "Original Arrangement Agreement"), Canopy Growth will acquire (the "Acquisition") all of the issued and outstanding shares in the capital of the Company (each, an "Acreage Share"). Under the terms of the Original Arrangement Agreement, holders of Acreage Shares and certain securities convertible or exchangeable into SVS as of the close of business on June 26, 2019, received approximately \$2.63, being their pro rata portion (on an as converted to SVS basis) of \$300,000 (the "Option Premium") paid by Canopy Growth.

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

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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### *Second Amendment to the Arrangement Agreement with Canopy Growth*

On June 24, 2020, Acreage and Canopy Growth entered into a proposal agreement (the “Proposal Agreement”) which set out, among other things, the terms and conditions upon which the parties were proposing to enter into an amending agreement (the “Amending Agreement”) to amend the Original Arrangement Agreement, amend and restate the Prior Plan of Arrangement (the “Amended Plan of Arrangement”) and implement the Amended Plan of Arrangement pursuant to the Business Corporations Act (British Columbia). The effectiveness of the amendment to the Original Arrangement Agreement and the implementation of the Amended Plan of Arrangement was subject to the conditions set out in the Proposal Agreement, which included, 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 Arrangement; and (ii) the shareholders of Acreage as required by applicable corporate and securities laws.

Following the satisfaction of various conditions set forth in the Proposal Agreement, on September 23, 2020, Acreage and Canopy Growth entered into the Amending Agreement (and together with the Original Arrangement Agreement, the “Arrangement Agreement”) and implemented the Amended Arrangement effective at 12:01 a.m. (Vancouver time) (the “Amendment Time”) on September 23, 2020 (the “Amendment Date”). Pursuant to the Amended Plan of Arrangement, Canopy Growth made a cash payment of \$37,500 which was delivered to Acreage’s shareholders and certain holders of securities convertible or exchangeable into shares of Acreage. Acreage also completed a capital reorganization (the “Capital Reorganization”) effective as of the Amendment Time whereby: (i) each existing SVS was exchanged for 0.7 of a Fixed Share and 0.3 of a Floating Share; (ii) each issued and outstanding PVS was exchanged for 28 Fixed Shares and 12 Floating Shares; and (iii) each issued and outstanding MVS was exchanged for 0.7 of a Fixed Multiple Share and 0.3 of a Floating Share.

At the Amendment Time, on the terms and subject to the conditions of the Amended Plan of Arrangement, each option, restricted share unit, compensation option and warrant to acquire existing SVS that was outstanding immediately prior to the Amendment Time, was exchanged for a replacement option, restricted stock unit, compensation option or warrant, as applicable, to acquire Fixed Shares (a “Fixed Share Replacement Security”) and a replacement option, restricted stock unit, compensation option or warrant, as applicable, to acquire Floating Shares (a “Floating Share Replacement Security”) in order to account for the Capital Reorganization.

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 0.3048 of a common share of Canopy Growth (each whole common share, a “Canopy Growth Share”) for each Fixed Share held (the “Fixed Exchange Ratio”) at the time of the acquisition of the Fixed Shares (the “Acquisition Time”), 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 30 day volume-weighted average trading price of the Floating Shares, subject to a minimum price of \$6.41, as may be adjusted in accordance with the terms of the Amended Plan of Arrangement, to be payable, at the option of Canopy Growth, in cash, Canopy Growth Shares or a combination thereof. If any portion is paid in Canopy Growth Shares, the number of Canopy Growth Shares to be exchanged for each Floating Share shall be determined on the basis of a 30 day volume-weighted average calculation using the Canopy Growth Shares and the Floating Shares (the “Floating Ratio”). 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. The Canopy Call Option and the Floating Call Option will expire 10 years from the Amendment Time.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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At the Acquisition Time, on the terms and subject to the conditions of the Amended Plan of Arrangement, each Fixed Share Replacement Security will be exchanged for a replacement option, restricted stock unit, compensation option or warrant, as applicable, to acquire from Canopy Growth such number of Canopy Growth Shares as is equal to: (i) the number of Fixed Shares that were issuable upon exercise of such Fixed Share Replacement Security immediately prior to the Acquisition Time, multiplied by (ii) the Fixed Exchange Ratio in effect immediately prior to the Acquisition Time (provided that if the foregoing would result in the issuance of a fraction of a Canopy Growth Share, then the number of Canopy Growth Shares to be issued will be rounded down to the nearest whole number).

In the event that the Floating Call Option is exercised and Canopy Growth acquires the Floating Shares at the Acquisition Time, on the terms and subject to the conditions of the Amended Plan of Arrangement, each Floating Share Replacement Security will be exchanged for a replacement option, restricted stock unit, compensation option or warrant, as applicable, to acquire from Canopy Growth such number of Canopy Growth Shares as is equal to: (i) the number of Floating Shares that were issuable upon exercise of such Floating Share Replacement Security immediately prior to the Acquisition Time, multiplied by (ii) the Floating Ratio (provided that if the foregoing would result in the issuance of a fraction of a Canopy Growth Share, then the number of Canopy Growth Shares to be issued will be rounded down to the nearest whole number).

In the event that the Floating Call Option is exercised and Canopy Growth acquires the Floating Shares at the Acquisition Time, Acreage will be a wholly-owned subsidiary of Canopy Growth.

The Amending Agreement also provides for, among other things, amendments to the definition of Purchaser Approved Share Threshold (as defined in the Arrangement Agreement) to change the number of shares of Acreage available to be issued by Acreage without an adjustment in the Fixed Exchange Ratio such that Acreage may issue a maximum of 32,700 shares (or convertible securities in proportion to the foregoing), which will include (i) 3,700 Floating Shares which are to be issued solely in connection with the exercise of stock options granted to Acreage management (the “Option Shares”); (ii) 8,700 Floating Shares other than the Option Shares; and (iii) 20,300 Fixed Shares. Notwithstanding the foregoing, the Amending Agreement provides that Acreage may not issue any equity securities, without Canopy Growth’s prior consent, other than: (i) upon the exercise or conversion of convertible securities outstanding as of the Amendment Date; (ii) contractual commitments existing as of the Amendment Date; (iii) the Option Shares; (iv) the issuance of up to \$3,000 worth of Fixed Shares pursuant to an at-the-market offering to be completed no more than four times during any one-year period; (v) the issuance of up to 500 Fixed Shares in connection with debt financing transactions that are otherwise in compliance with the terms of the Arrangement Agreement, as amended by the Amending Agreement; or (vi) pursuant to one private placement or public offering of securities during any one-year period for aggregate gross proceeds of up to \$20,000, subject to specific limitations as set out in the Amending Agreement.

In addition, the Amending Agreement provides for, among other things: (i) various Canopy Growth rights that extend beyond the Acquisition Date and continue until Canopy Growth ceases to hold at least 35% of the issued and outstanding Acreage shares (such date being the “End Date”), including, among others, rights to nominate a majority of Acreage’s Board of Directors (the “Acreage Board”) following the Acquisition Time, restrictions on Acreage’s ability to incur certain indebtedness without Canopy Growth’s consent; (ii) restrictive covenants in respect of the business conduct in favor of Canopy Growth; (iii) termination of non-competition and exclusivity rights granted to Acreage by Canopy Growth in the Arrangement Agreement in the event that Acreage does not meet certain specified financial targets on an annual basis during the term of the Canopy Call Option as further described below; (iv) implementation of further restrictions on Acreage’s ability to operate its business, including its ability to hire certain employees or make certain payments or incur any non-trade-payable debt without Canopy Growth’s consent in the event that Acreage does not meet certain specified financial targets on a quarterly basis during the term of the Canopy Call Option as further described below; and (v) termination of the Arrangement Agreement and Canopy Growth’s obligation to complete the acquisition of the Fixed Shares pursuant to the Canopy Call Option in the event that Acreage does not meet certain specified financial targets in the trailing 12 month period as further described below. Each of the financial targets referred to above is specified in the Amending Agreement and related to the performance of Acreage relative to a business plan for Acreage for each fiscal year ended December 31, 2020 through December 31, 2029 set forth in the Proposal Agreement (the “Initial Business Plan”).

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

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The Amending Agreement precludes Acreage from entering into any contract in respect of Company Debt (as defined in the Arrangement Agreement) if, among other restrictions: (i) such contract would be materially inconsistent with market standards for companies operating in the United States cannabis industry; (ii) such contract prohibits a prepayment of the principal amount of such Company Debt, requires a make-whole payment for the interest owing during the remainder of the term of such contract or charges a prepayment fee in an amount greater than 3.0% of the principal amount to be repaid; (iii) such contract would provide for interest payments to be paid through the issuance of securities as opposed to cash; or (iv) such contract has a principal amount of more than \$10,000 or a Cost of Capital (as defined in the Amending Agreement) that is greater than 30.0% per annum; provided that, if such Company Debt is fully secured by cash in a blocked account, the Cost of Capital may not be greater than 3.0% per annum. Notwithstanding the foregoing, Canopy Growth's consent will not be required for Acreage or any of its subsidiaries to enter into a maximum of two transactions for Company Debt that would require consent based on the foregoing during any one-year period, in accordance with the following terms: (i) the principal amount of the Company Debt per transaction may not exceed \$10,000, (ii) the Company Debt is not convertible into any securities; and (iii) the contract does not provide for the issuance of more than 500 Acreage shares (or securities convertible into or exchangeable for 500 Acreage shares).

The Amending Agreement also provides for certain financial reporting obligations and that Acreage may not nominate or appoint any new director or appoint any new officer that does not meet certain specified criteria. The Amending Agreement also requires Acreage to submit a business plan to Canopy Growth on a quarterly basis that complies with certain specified criteria, including the Initial Business Plan. In the event that Acreage has not satisfied: (i) 90% of the minimum revenue and earnings targets set forth in the Initial Business Plan measured on a quarterly basis, certain additional restrictive covenants will become operative as austerity measures for Acreage's business; (ii) 80% of the minimum revenue and earnings targets set forth in the Initial Business Plan, as determined on an annual basis, certain restrictive covenants applicable to Canopy Growth under the Arrangement Agreement will cease to apply in order to permit Canopy Growth to acquire, or conditionally acquire, a competitor of Acreage in the United States should it wish to do so; and (iii) 60% of the minimum revenue and earnings targets set forth in the Initial Business Plan for the trailing 12 month period ending on the date that is 30 days prior to the proposed Acquisition Time, a material adverse impact will be deemed to have occurred for purposes of Section 6.2(2)(h) of the Arrangement Agreement and Canopy Growth will not be required to complete the acquisition of the Fixed Shares pursuant to the Canopy Call Option.

The Amending Agreement also requires Acreage to limit its operations to the Identified States (as defined in the Amending Agreement). In connection with the execution of the Proposal Agreement, Acreage was provided with consent from Canopy Growth to divest of all assets outside of the Identified States (the "Non-Core Divestitures").

In addition, the Amending Agreement includes certain covenants that will apply following the Acquisition Time until the earlier of the date on which the Floating Shares are acquired by Canopy Growth or the End Date. Such covenants include, among others, pre-emptive rights and top-up rights in favor of Canopy Growth, restrictions on M&A activities, approval rights for Acreage's quarterly business plan, nomination rights for a majority of the directors on the Acreage Board and certain audit and inspection rights.

### *Debenture*

In connection with the implementation of the Amended Arrangement, pursuant to a secured debenture dated September 23, 2020 (the "Debenture") issued by Universal Hemp, LLC, an affiliate of Acreage that operates solely in the hemp industry in full compliance with all applicable laws (the "Borrower"), to 11065220 Canada Inc., an affiliate of Canopy Growth (the "Lender"), the Lender agreed to provide a loan of up to \$100,000 (the "Loan"), \$50,000 of which was advanced on the Amendment Date (the "Initial Advance"), and \$50,000 of the Loan will be advanced in the event that the following conditions, among others, are satisfied: (a) the Borrower's EBITDA (as defined in the Debenture) for any 90 day period is greater than or equal to 2.0 times the interest costs associated with the Initial Advance; and (b) the Borrower's business plan for the 12 months following the applicable 90 day period supports an Interest Coverage Ratio (as defined in the Debenture) of at least 2.00:1.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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The principal amount of the Loan will bear interest from the date of advance, compounded annually, and be payable on each anniversary of the date of the Debenture in cash in U.S. dollars at a rate of 6.1% per annum. The Loan will mature 10 years from the date of the Initial Advance.

The Loan must be used exclusively for U.S. hemp-related operations and on the express condition that such amount will not be used, directly or indirectly, in connection with or for the operation or benefit of any of the Borrower's affiliates other than subsidiaries of the Borrower exclusively engaged in U.S. hemp-related operations and not directly or indirectly, towards the operation or funding of any activities that are not permissible under applicable law. The Loan proceeds must be segregated in a distinct bank account and detailed records of debits to such distinct bank account will be maintained by the Borrower.

No payment due and payable to the Lender by the Borrower pursuant to the Debenture may be made using funds directly or indirectly derived from any cannabis or cannabis-related operations in the United States, unless and until the Triggering Event Date.

The Debenture includes usual and typical events of default for a financing of this nature, including, without limitation, if: (i) Acreage is in breach or default of any representation or warranty in any material respect pursuant to the Arrangement Agreement; (ii) the Non-Core Divestitures are not completed within 18 months from the Amendment Date; and (iii) Acreage fails to perform or comply with any covenant or obligation in the Arrangement Agreement which is not remedied within 30 days after written notice is given to the Borrower by the Lender. The Debenture also includes customary representations and warranties, positive covenants and negative covenants of the Borrower.

### *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 September 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 September 30, 2020 and 2019, such amounts were not material.

### Contingencies

As of September 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 280 Fixed Shares and 120 Floating Shares. No reserve for the contingencies has been recorded as of September 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's applicable subsidiaries ceasing operations. While management of the Company believes that the Company's subsidiaries are in compliance with applicable local and state regulations as of September 30, 2020, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company's subsidiaries may be subject to regulatory fines, penalties, or restrictions in the future.

The Company and its subsidiaries 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*

## ACREAGE HOLDINGS, INC.

### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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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 market price over the course of 24 months from the effective date. Pursuant to the Standby Equity Distribution Agreement, investor may, at its discretion, purchase, and the Company may, at its discretion, periodically sell to the investor, up to \$35,000 and \$15,000 of the Company's Fixed Shares and Floating Shares, respectively. In consideration for entering the Standby Equity Distribution Definitive Agreement, the Company issued the investor 200 SVS as commitment shares. Pursuant to the Amended Arrangement, the shares have since been exchanged for 140 Fixed Shares and 60 Floating 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.

#### *California Employment Claim*

On February 8, 2019, a former employee of Made By Science, LLC ("Plaintiff") filed an action in the Superior Court of the State of California, County of Los Angeles against Made By Science, LLC ("MBS"), Made By Science, Inc., Form Factor LLC, Form Factory, Inc., Acreage, and a former employee (collectively, for the purposes of this matter, the "Defendants"). Plaintiff's complaint asserted six causes of action against Defendants for (i) breach of contract; (ii) failure to pay wages; (iii) conversion; (iv) failure to pay all wages upon separation of employment; (v) failure to provide accurate, itemized wage statements; and (vi) failure to pay all wages in violation of Cal. Labor Code § 204, arising from Plaintiff's employment with MBS. Several of the Defendants moved to compel arbitration of the dispute based on the arbitration provision contained in the relevant agreement. On August 14, 2019, the Court granted Defendants' motion to compel arbitration. An arbitrator has recently been assigned and a preliminary conference was held. The parties exchanged information and documents relevant to Plaintiff's claims in accordance with the applicable arbitration rules. Depositions have begun to take place and an arbitration hearing remains tentatively scheduled for December 7, 2020. Defendants will continue to vigorously defend against Plaintiff's claims and intend to file a dispositive motion to summarily dismiss Plaintiff's claims in advance of the arbitration hearing.

#### *CanWell Dispute*

The CanWell dispute is comprised of five separate proceedings



# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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- i. CanWell's petition filed in Rhode Island Superior Court (C.A. KM-2019-0948) to compel arbitration of claims arising out of WPMC withdrawal as a member of the CanWell entities as well as other disputes, including issues relating to termination of the Alternative Dosage Agreement ("ADA") (relating to the Maine dispensary).
- ii. CanWell's petition filed in Rhode Island Superior Court (C.A. No. KM-2019-1047) to compel arbitration of WPMC's redemption of the CanWell entity's interest in WPMC, including issues relating to termination of the ADA.
- iii. An arbitration proceeding relating to WPMC's withdrawal from the CanWell entities. A procedural meeting with the arbitrator took place on November 5, 2019.
- iv. An arbitration that will soon be underway with the American Arbitration Association on the issue of whether WPMC had the right to redeem CanWell's interest in WPMC.
- v. A civil action pending in Maine (Docket No. CUMSC-CV-19-0357) which was filed by Northeast Patients Group d/b/a Wellness Connection of Maine against CanWell, LLC and CanWell Processing (Maine), LLC, relating to the termination of the ADA. While no Acreage affiliate is currently a party to this action, the issue being litigated relates to the termination of the ADA, which is one of the issues that CanWell is attempting to arbitrate in Rhode Island.
- vi. A declaratory judgment action pending in Delaware, High Street Capital Partners, LLC v. CanWell, LLC, CanWell Processing (Maine), LLC, and CanWell Processing (Rhode Island), LLC (Court of Chancery, No. 2019-0957-MTZ) seeking a declaratory judgment that, as a matter of law, High Street is not subject to any non-compete provision with regard to the agreements detailed above. This case remains in the preliminary stages of litigation.

The Court issued an order on January 29, 2020 that determined that the arbitrability of the ADA Disputes is to be decided by an arbitrator, not the Court.

Following the parties' entering into a Memorandum of Understanding (MOU) on proposed settlement terms that would settle each of the matters listed above, the parties have now reached a final confidential settlement agreement. As part of that agreement, the Company has accrued for \$7,750 in *Other loss, net* on the Statements of Operations for the three and nine months ended September 30, 2020 and anticipates the dismissal of each action listed above in the coming months.

### 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 Real Estate ("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.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

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On July 15, 2020, a subsidiary of 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.

Pursuant to the Amended Arrangement, the monthly interest on the collateral payable to Kevin Murphy was modified to cash payments for the remaining duration of the term at an interest rate of 12% per annum, payable upon maturity. The remaining interest will continue to be paid monthly in the form of 2 Fixed Shares and 1 Floating Share through the maturity date.

## 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.

# ACREAGE HOLDINGS, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except per share data)

Basic and diluted loss per share is as follows:

	Three Months Ended September 30.		Nine Months Ended September 30.	
	2020	2019	2020	2019
Net loss attributable to common shareholders of the Company	\$ (35,748)	\$ (38,716)	\$ (244,894)	\$ (99,634)
Weighted average shares outstanding - basic	103,450	89,262	98,304	84,817
Effect of dilutive securities	—	—	—	—
Weighted average shares - diluted	103,450	89,262	98,304	84,817
Net loss per share attributable to common shareholders of the Company - basic	\$ (0.35)	\$ (0.43)	\$ (2.49)	\$ (1.17)
Net loss per share attributable to common shareholders of the Company - diluted	\$ (0.35)	\$ (0.43)	\$ (2.49)	\$ (1.17)

During the nine months ended September 30, 2020, 5,684 Fixed warrants, 2,436 Floating warrants, 5,108 Fixed Share restricted share units, 2,189 Floating Share restricted share units, 3,148 Fixed Share stock options, 1,349 Floating Share stock options and 24,142 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 nine months ended September 30, 2019, 2,040 warrants, 8,120 restricted share units, 4,963 stock options, 1,000 profits interests and 25,519 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

#### Secured bridge loan

In October 2020, the Company retired its subsidiary's borrowing pursuant to a short-term strategic financing loan. The Company's subsidiary paid in aggregate \$18,050 to retire the full principal balance and accrued interest.

#### Promissory note payable

In October 2020, Foros Securities LLC extended a promissory note of \$2,000 to the Company bearing interest at 10% per annum. The promissory note matures on the earlier of July 5, 2021 or the date the principal is repaid in full.

#### Senior secured term loan facility

In November 2020, the Company's subsidiary received initial commitments and funding from a syndicate of lenders for a first advance of \$28,000 pursuant to a senior secured term loan facility at an annual interest rate of 15% with a maturity of 48 months from closing.

In connection with the advance, the Company issued the lenders an aggregate of 1,557 Fixed Share Warrants with each Fixed Share Warrant exercisable for one Class E subordinate voting share and 698 Floating Share Warrants with each Floating Share Warrant exercisable for one class D subordinate voting share. The exercise price of each Fixed Share Warrant is \$3.15 and the exercise price of each Floating Share Warrant is \$3.01. The warrants are exercisable for a period of four years.

#### GreenAcreage Exchange

On November 17, 2020, the Company completed the exchange and redemption as contemplated by that certain Exchange and Redemption Agreement between HSCP, GreenAcreage and its affiliates (the "Exchange and Redemption Agreement"). Pursuant to the Exchange and Redemption Agreement, the Company, by way of HSCP, exchanged all of its equity interests in an affiliate

of GreenAcreage for the fee interest in the Sanderson, Florida property previously sold to GreenAcreage in the 2019 sale-leaseback transaction described in Note 14.

Settlement of lease dispute

On or around December 2019, it is alleged that a wholly-owned subsidiary of HSCP entered into three five-year leases to occupy approximately 70 square feet of commercial space on a cannabis cultivation campus in California. As of November 24, 2020, HSCP and its wholly-owned subsidiary entered into a confidential settlement and release agreement with the commercial landlord, pursuant to which HSCP will make six payments to the commercial landlord totaling \$6,336, with the final payment due on December 31, 2021.