PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

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.

Holders

As of March 4, 2021, there were 795 holders of record of the Fixed Shares and 756 holders of record of the Floating Shares, including CDS & Co. and Cede & Co., which are the nominees for holding shares on behalf of brokerage firms in Canada and the U.S., respectively, each as a single holder of record.

Item 6. Selected Financial Data.

The information set forth below for the years ended December 31, 2020, 2019, 2018, and 2017 is not necessarily indicative of results of future operations, and should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in Part II, Item 8 of this Form 10-K to fully understand factors that may affect the comparability of the information presented below.

As an emerging growth company, we are not required to present selected financial data for any period prior to the earliest audited financial statements presented in connection with our first registration statement that became effective under the Exchange Act. Consequently, we do not present financial data for the years ended December 31, 2016 in the table below.

Selected Financial Data	**Year Ended December 31,**			
(in thousands, except per share amounts)	**2020**	**2019**	**2018**	**2017**
Revenues, net	$ 114,545	$ 74,109	$ 21,124	$ 7,743
Net operating loss	(364,811)	(191,444)	(41,133)	(7,047)
Net loss	(360,118)	(195,162)	(32,261)	(10,102)
Net loss attributable to Acreage	(286,588)	(150,268)	(27,483)	(9,109)
Net loss per share attributable to Acreage, basic and diluted	(2.87)	(1.74)	(0.41)	(0.20)
Weighted average shares outstanding, basic and diluted	99,980	86,185	66,699	45,076

	December 31,		
	2020	**2019**	**2018**
Cash and cash equivalents	$ 32,542	$ 26,505	$ 104,943
Total assets	562,053	691,677	554,582
Total non-current liabilities	204,602	139,730	35,447

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

This MD&A should be read in conjunction with the Company's consolidated financial statements and related notes. Financial information presented in this MD&A is presented in thousands of United States ("U.S.") dollars, unless otherwise indicated.

Overview

Acreage, a vertically integrated, multi-state operator of cannabis licenses and assets in the U.S, was continued into the Province of British Columbia under the *Business Corporations Act* (British Columbia). Acreage Fixed Shares and Floating Shares (as such terms are defined at Note 13 of the consolidated financial statements) are each listed on the Canadian Securities Exchange under the symbols "ACRG.A.U" and "ACRG.B.U", respectively, and are quoted on the OTCQX® Best Market by OTC Markets Group under the symbols "ACRHF" and "ACRDF", respectively and on the Open Market of the Frankfurt Stock Exchange under the symbols "0VZ1" and "0VZ2", respectively. Acreage operates through its consolidated subsidiary High Street Capital Partners, LLC ("**HSCP**"), a Delaware limited liability company. HSCP, which does business as "Acreage Holdings", was formed on April 29, 2014. The Company became an indirect parent of HSCP on November 14, 2018 in connection with a reverse takeover ("**RTO**") transaction. Our operations include (i) cultivating cannabis plants, (ii) manufacturing branded consumer products, (iii) distributing cannabis flower and manufactured products, and (iv) retailing high-quality, effective and dosable cannabis products to consumers. We appeal to medical and adult-use customers through brand strategies intended to build trust and loyalty.

<u>Highlights from the year ended December 31, 2020</u>

During 2020, as part of an overall strategic plan to focus on key, profitable operations we decided to continue to develop operations in the following nine core states of Connecticut, Maine, Massachusetts, New Hampshire, New York, New Jersey, Pennsylvania, Illinois and Ohio. We expect this shift in focus to lead to margin improvements and accelerate our pathway to achieve positive returns.

- We began adult-use sales at our dispensary in Illinois; the significantly increased sales have exceeded internal expectations. We also received zoning approval to open a dispensary in Chicago.

- The Company closed a refinancing transaction and conversion related to Northeast Patients Group, operating as WCM, a medical cannabis business in Maine, resulting in ownership of WCM by three Maine residents, as required by Maine law. In connection with the transaction, WCM converted from a non-profit corporation to a for-profit corporation.

- We received Cannabis Control Commission provisional approval for adult-use sales at *The Botanist* locations in Worcester and Shrewsbury, Massachusetts.

- We closed our acquisition of Compassionate Care Foundation, Inc. ("**CCF**"), a medical cannabis cultivator and dispenser in New Jersey.

- We opened a second adult-use dispensary in Illinois, ahead of schedule.

- On September 23, 2020, we entered into the Amended Arrangement with Canopy Growth. Pursuant to the Amended Arrangement, the Company's articles were amended to create the Class E subordinate voting shares (the "**Fixed Shares**"), Class D subordinate voting shares (the "**Floating Shares**") and the Class F multiple voting shares (the "**Fixed Multiple Shares**"), and the Company completed a capital reorganization (the "**Capital Reorganization**") pursuant to which each outstanding Class A subordinate voting share (the "**SVS**") was exchanged for 0.7 of a Fixed Share and 0.3 of a Floating Share, each outstanding Class B proportionate voting share (the "**PVS**") was exchanged for 28 Fixed Shares and 12 Floating Shares, and each outstanding Class C multiple voting share (the "**MVS**") was exchanged for 0.7 of a Fixed Multiple Share and 0.3 of a Floating Share. Refer to Note 13 of the consolidated financial statements for further discussion.

- Pursuant to the Arrangement Agreement, upon the occurrence of a Triggering Event, 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 Canopy Growth Share for each Fixed Share held at the time of the acquisition of the Fixed Shares, subject to adjustment in accordance with the terms of the Amended Arrangement; and (ii) have the right (but not the obligation), exercisable for a period of 30 days following the Triggering Event Date to acquire all of the issued and outstanding Floating Shares. Upon exercise of the Floating Call Option, Canopy Growth may acquire the Floating Shares for cash or for Canopy Growth Shares or a combination thereof, in Canopy Growth's sole discretion.

- We entered into various financing transactions and repayments during the year ended December 31, 2020, which are described in further details in the *Liquidity and Capital Resources* section.

- COVID-19 has had minimal impact on our overall performance but at some locations there has been some impact to our day-to-day operations.

- On February 25, 2021 we entered into an agreement to sell our operations in Florida, which is consistent with our overall strategy to focus on our core nine states.

Operational and Regulation Overview

We believe Acreage's operations are in material compliance with all applicable state and local laws, regulations and licensing requirements in the states which we operate. However, cannabis is illegal under U.S. federal law. Substantially all our revenue is derived from U.S. cannabis operations. For information about risks related to U.S. cannabis operations, refer to Item 1A of this Form 10-K.

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. COVID-19 has had minimal impact on our overall performance but at some locations there has been some impact to our day-to-day operations.

Results of Operations

The following table presents selected financial data derived from the consolidated financial statements of the Company for the years ended December 31, 2020, 2019 and 2018. The selected financial information set out below may not be indicative of the Company's future performance.

Summary Results of Operations				**Better/(Worse)**		**Better/(Worse)**	
in thousands, except per share amounts	**Year Ended December 31,**			**2020 vs. 2019**		**2019 vs. 2018**	
	2020	2019	2018	$	%	$	%
Revenues, net	$ 114,545	$ 74,109	$ 21,124	$ 40,436	55 %	$ 52,985	251 %
Operating loss	(364,811)	(191,444)	(41,133)	(173,367)	(91)	(150,311)	(365)
Net loss attributable to Acreage	(286,588)	(150,268)	(27,483)	(136,320)	(91)	(122,785)	(447)
Basic and diluted loss per share attributable to Acreage	$ (2.87)	$ (1.74)	$ (0.41)	$ (1.13)	(65)%	$ (1.33)	(324)%

Revenues, net, cost of goods sold and gross profit

The Company derives its revenues from sales of cannabis and cannabis-infused products through retail dispensary, wholesale, manufacturing and cultivation businesses, as well as from management or consulting fees from entities for whom we provide management or consulting services. As of December 31, 2020, Acreage owned and operated five dispensaries in Oregon (three in Portland, one in Eugene and one in Springfield), four in New York (Buffalo, Farmingdale, Middletown, and Queens), two in New Jersey (Atlantic City and Egg Harbor), three in Connecticut (Bethel, South Windsor and Uncasville), two in Massachusetts (Worcester and Shrewsbury), two in Illinois (Chicago and Rolling Meadows), one in Maine (South Portland), and one in Florida (Spring Hill). Acreage has cultivation facilities in Sinking Spring, Pennsylvania, Sterling, Massachusetts, Syracuse, New York, Freeport, Illinois Sanderson, Florida and Egg Harbor, New Jersey. Acreage also collects management services revenues, substantially all in Maine.

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

Gross profit				**Better/(Worse)**		**Better/(Worse)**	
in thousands	**Year Ended December 31,**			**2020 vs. 2019**		**2019 vs. 2018**	
	2020	2019	2018	$	%	$	%
Retail revenue, net	$ 86,380	$ 54,401	$ 17,475	$ 31,979	59 %	$ 36,926	211 %
Wholesale revenue, net	27,971	18,539	2,969	9,432	51	15,570	524
Other revenue, net	194	1,169	680	(975)	(83)	489	72
Total revenues, net	$114,545	$ 74,109	$ 21,124	$ 40,436	55 %	$ 52,985	251 %
Cost of goods sold, retail	(51,018)	(33,844)	(10,038)	(17,174)	(51)	(23,806)	(237)
Cost of goods sold, wholesale	(14,369)	(9,821)	(1,666)	(4,548)	(46)	(8,155)	(489)
Total cost of goods sold	$(65,387)	$(43,665)	$(11,704)	$ (21,722)	(50)%	$ (31,961)	(273)%
Gross profit	$ 49,158	$ 30,444	$ 9,420	$ 18,714	61 %	$ 21,024	223 %
Gross margin	43 %	41 %	45 %		2 %		(4)%

n/m - Not Meaningful

Year ended December 31, 2020 vs. 2019

Retail revenue saw a net increase of 59% for the year ended December 31, 2020, as compared to the corresponding prior period. The increase in retail revenue, net of $31,979 for the year ended December 31, 2020, was primarily due to increased demand and production across various states (primarily Connecticut, New York, Florida and Massachusetts), along with impact of CCF which was acquired in June 2020, and further driven by the impact of NCC LLC (“**NCC**”), a dispensary license holder in Illinois acquired in March 2019, becoming fully operational during the year, coupled with an expansion in sales as adult-use sales became legalized in the state of Illinois in January 2020. These increases were partially offset by the net impact of decreased business in Maryland Medicinal Research & Caring, LLC (“**MMRC**”) ($557) as well as the divestiture of Acreage North Dakota, LLC ($491), which occurred in May 2020.

Wholesale revenue, net increased 51% for the year ended December 31, 2020, as compared to the corresponding prior period. The increases in wholesale revenue, net for the year ended December 31, 2020 were primarily due to increased capacity coupled with growing operations in our Pennsylvania, Massachusetts, Illinois and New Jersey cultivation facilities. This resulted in higher yields and product mix in each of the respective markets.

Cost of goods sold increased 50% for the year ended December 31, 2020, as compared to the prior period. Cost of goods sold, retail increased in line with the retail revenue increases. Cost of goods sold, wholesale increased as a result of increases to wholesale revenue. In addition, the increase was further driven by the initial set up costs and consequential expansion impact of various cultivation facilities. The suspension of operations at Form Factory Holdings, LLC (“**Form Factory**”), a manufacturer and distributor of cannabis-based edibles and beverages, since March 2020 further increased costs of goods sold ($824), wholesale as a result of consequential inventory write-offs.

The increase in gross profit was driven by the factors discussed above. Gross margin for the year ended December 31, 2020 was 42.9%, compared to 41.1% for the year ended December 31, 2019.

Excluding Form Factory, the average estimated wholesale price per gram sold during the years ended December 31, 2020 and 2019 was $6.65 and $6.78, respectively. Excluding Form Factory, the average estimated wholesale cost per gram sold during the years ended December 31, 2019 and 2018 was $3.16 and $3.30, respectively.

Year ended December 31, 2019 vs. 2018

The increase in total revenues during the year ended December 31, 2019 was primarily driven by acquisitions, which contributed 183%. Acquisitions drove 198% and 118% of retail and wholesale revenue increases, respectively. The remaining increase in wholesale revenue was primarily driven by our Pennsylvania cultivation facility.

The increase in total cost of goods sold during the year ended December 31, 2019 was primarily driven by acquisitions, which contributed 206%. Acquisitions contributed 217% and 135% to the retail and wholesale costs of goods sold, respectively. The remaining increase in wholesale cost of goods sold was primarily driven by our Pennsylvania cultivation facility.

The increase in gross profit was driven by the factors discussed above. Acquisitions contributed 155% to the increase. Gross margin for the year ended December 31, 2019 was 41.1%, compared to 44.6% for the year ended December 31, 2018.

Excluding Form Factory, the average estimated wholesale price per gram sold during the years ended December 31, 2019 and 2018 was $6.78 and $7.17, respectively. Excluding Form Factory, the average estimated wholesale cost per gram sold during the years ended December 31, 2019 and 2018 was $3.30 and $4.03, respectively.

Revenue by geography

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

Revenue by region				**Better/(Worse)**		**Better/(Worse)**	
in thousands	**Year Ended December 31,**			**2020 vs. 2019**		**2019 vs. 2018**	
	2020	2019	2018	$	%	$	%
New England	$ 48,325	$ 36,875	$ 9,139	$ 11,450	31 %	$ 27,736	303
Mid-Atlantic	37,300	19,797	3,122	17,503	88	16,675	534
Midwest	17,347	6,839	20	10,508	154	6,819	n/m
West	10,206	10,598	8,843	(392)	(4)	1,755	20
South	1,367	—	—	1,367	n/m	—	n/m
Total revenues, net	$ 114,545	$ 74,109	$ 21,124	$ 40,436	55 %	$ 52,985	251 %

n/m - Not Meaningful

Total operating expenses

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

Operating expenses in thousands	**Year Ended December 31,**			**Better/(Worse) 2020 vs. 2019**		**Better/(Worse) 2019 vs. 2018**	
	2020	2019	2018	$	%	$	%
General and administrative	$ 50,469	$ 56,224	$ 18,647	$ 5,755	10 %	$ (37,577)	(202)%
Compensation expense	41,704	42,061	15,356	357	1	(26,705)	(174)
Equity-based compensation expense	92,064	97,538	11,230	5,474	6	(86,308)	(769)
Marketing	1,820	5,009	1,571	3,189	64	(3,438)	(219)
Loss on impairments	188,023	13,463	—	(174,560)	n/m	(13,463)	n/m
Loss on notes receivable	8,161	—	—	(8,161)	n/m	—	n/m
Write down of assets held-for-sale	11,003	—	—	(11,003)	n/m	—	n/m
Loss on legal settlements	14,555	—	—	(14,555)	n/m	—	n/m
Depreciation and amortization	6,170	7,593	3,749	1,423	19	(3,844)	(103)
Total operating expenses	$ 413,969	$ 221,888	$ 50,553	$ (192,081)	(87)%	$ (171,335)	(339)%

n/m - Not Meaningful

Year ended December 31, 2020 vs. 2019

General and administrative expenses decreased during the year ended December 31, 2020, primarily due to cost reduction measures and the Company's overall strategic plan to focus on key, profitable operations. Compensation expense and Equity-based compensation expense remained relatively flat during the year ended December 31, 2020, as compared to the corresponding prior period. During the year ended December 31, 2020, the Company determined certain businesses and assets met the held-for-sale criteria. In accordance with ASC 360-10, *Property, Plant and Equipment*, the assessed disposal groups for such assets held-for-sale were written down to fair value less costs to sell, resulting in the recognition of a charges of $11,003 for the year ended December 31, 2020. The Company recognized an impairment losses of $188,023 on certain intangible assets and capital assets during the year December 31, 2020 as a result of our impairment testing, primarily due to declines in future cash flow projections at Form Factory and certain cannabis licenses and management services contracts. These impairments resulted in the recognition of a tax provision benefit and an associated reversal of deferred tax liabilities of $31,498 year ended December 31, 2020. The Company recognized a loss on notes receivable and associated accrued interest during the year ended December 31, 2020, as it was determined that the note were no longer collectible. The increase in *Loss from legal settlements* was driven by the recognition of litigation accruals during the year ended December 31, 2020.

Year ended December 31, 2019 vs. 2018

Increases to compensation expenses during the year ended December 31, 2019 was primarily driven by stock compensation to attract and retain talent and increased headcount to scale our operations. Increases to general and administrative expenses were primarily driven by the increased volume and complexity of services such as legal and other professional services required as the Company's operations increased during the year ended December 31, 2019. The Company recognized an impairment loss on certain intangible assets during the year ended December 31, 2019 as a result of our annual impairment testing, primarily due to declines in future cash flow projections at Form Factory and certain management services contracts.

<u>Total other income (loss)</u>

Other income (loss) in thousands	**Year Ended December 31,**			**Better/(Worse) 2020 vs. 2019**		**Better/(Worse) 2019 vs. 2018**	
	2020	2019	2018	$	%	$	%
Income (loss) from investments, net	$ 98	$ (480)	$ 21,777	$ 578	n/m	$ (22,257)	n/m
Interest income from loans receivable	6,695	3,978	1,178	2,717	68	2,800	238
Interest expense	(15,853)	(1,194)	(4,617)	(14,659)	n/m	3,423	74
Other loss, net	(3,487)	(1,033)	(7,930)	(2,454)	(238)	6,897	87
Total other (loss) income	$ (12,547)	$ 1,271	$ 10,408	$ (13,818)	n/m	$ (9,137)	(88)

n/m - Not Meaningful

Year ended December 31, 2020 vs. 2019

Income from investments, net increased during the year ended December 31, 2020, compared to the corresponding prior period, primarily due to increased ownership interest resulting from the internalization of GreenAcreage Real Estate ("GreenAcreage") as well as the mark-to-market fluctuations in our portfolio. This increase is partially offset by the impact of the equity method investment described in Note 5 to our consolidated financial statements, as well as the absence of treasury bills during the year ended December 31, 2020. Interest expense increased during the year ended December 31, 2020, compared to the corresponding prior period, primarily due to the effects of increased financing transactions as well as the Company's failed sale-leaseback transactions. Interest income from loans receivable increased during the year ended December 31, 2020, compared to the corresponding prior period, as our amount of outstanding loans increased. The increase in *Other loss, net* was primarily driven by losses from asset sales and disposals partially offset by gains on certain capital assets sold and exchanged (refer to Note 5 for further information) during the year ended December 31, 2020.

Year ended December 31, 2019 vs. 2018

The decline in income (loss) from investments, net was due to the roll up of our investments to consolidated subsidiaries during the year ended December 31, 2019. The improvement to other loss, net was driven by increased expenses related to our public listing incurred during the year ended December 31, 2019. The decline in interest expense was due to the conversion of our convertible notes to equity at the time of our public listing. Interest income from loans receivable increased as our amount of outstanding loans increased.

Net loss

Net loss in thousands	**Year Ended December 31,**			**Better/(Worse) 2020 vs. 2019**		**Better/(Worse) 2019 vs. 2018**	
	2020	2019	2018	$	%	$	%
Net loss	$ (360,118)	$ (195,162)	$ (32,261)	$ (164,956)	(85)%	$ (162,901)	(505)%
Less: net loss attributable to non-controlling interests	$ (73,530)	$ (44,894)	$ (4,778)	$ (28,636)	(64)	(40,116)	(840)
Net loss attributable to Acreage Holdings, Inc.	$ (286,588)	$ (150,268)	$ (27,483)	$ (136,320)	(91)%	$ (122,785)	(447)%
n/m - Not Meaningful							

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources and uses of cash

Our primary uses of capital include acquisitions, capital expenditures, servicing of outstanding debt and operating expense. Our primary sources of capital include funds generated by cannabis sales as well as financing activities. Through December 31, 2020, we have primarily used private financing as a source of liquidity for short-term working capital needs and general corporate purposes.

The Company's significant financing transactions for the year ended December 31, 2020 are as follows:

In February 2020, the Company raised $27,887, net of issuance costs, from a private placement of 6,085 special warrants priced at $4.93 per special warrant. The warrants were automatically exercised into units of the Company in March 2020 for no additional consideration, with each unit consisting of one SVS voting share and one SVS purchase warrant with an exercise price of $5.80 and an expiry date of February 10, 2025.

In March 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 2 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.

Additionally, in March 2020, the Company closed $22,000 in borrowings pursuant to a loan transaction with IP Investment Company, LLC. The maturity date is 366 days from the closing date of the loan transaction (refer to Note 10, 14 and 17 of the consolidated financial statements for further discussion).

In May 2020, the Company reached a definitive agreement with an institutional lender for $50,000 of financing commitments under a Standby Equity Distribution Agreement. The investor commits to purchase up to $50,000 of subordinate voting shares of the Company at a purchase price of 95% of the market price (refer to Note 10 and 17 of the consolidated financial statements for further discussion).

Additionally, in May 2020, the Company entered into a securities purchase agreement an 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").

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 "**Bridge Loan**"). 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 September 2020, the Company closed on a financing transaction described in Note 10 to the consolidated financial statements where a subsidiary of Canopy Growth advanced gross proceeds of $50,000 (less transaction costs of approximately $4,025) to Universal Hemp, LLC, an affiliate 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.

Additionally, in September 2020, the Company received gross proceeds of $33,000 (less transaction costs of approximately $959) from an institutional lender and used a portion of the proceeds to retire its short-term $11,000 Convertible Debenture and its short-term Bridge Loan aggregating approximately $18,000 in October 2020. The loan is unsecured, matures in three years and bears interest at a 7.5% annual interest rate (refer to Note 10 of the consolidated financial statements "September 2020 Transactions" for additional disclosures regarding the Institutional Lender and the Investment Partnership).

In October 2020, the Company's subsidiary received initial commitments and funding from a syndicate of lenders gross of $28,000 (less origination discounts and issuance costs of approximately $840 and $1,136, respectively) pursuant to a senior secured term loan facility at an annual interest rate of 15% with a maturity of 4 years from closing. The total amount available under the senior secured term loan facility is $70,000 (refer to Note 10 of the consolidated financial statements for further discussion).

In November 2020, the Company entered into a loan agreement with a cannabis-focused real estate investment trust for a construction financing loan in the amount of $13,320 (with transaction costs of approximately $1,399). The loan agreement provides for an annual interest rate of 16% and a term of 18 months. The loan will be used to complete the expansion of the Company's cultivation and processing factory in Illinois (the "Illinois Property"). The loan is secured by the Illinois Property and is subject to periodic advances to the Company to fund the completion of improvements or real property collateral or fund other amounts as permitted under the loan agreement.

Our ability to fund our operations, capital expenditures, acquisitions, and other obligations depends on our future operating performance and ability to obtain financing, which are subject to prevailing economic conditions, as well a financial, business and other factors, some of which are beyond our control.

We expect that our cash on hand and cash flows from operations, along with our ability to obtain private and/or public financing, will be adequate to support the capital needs of the existing operations as well as expansion plans for the next 12 months. While our liquidity risk has increased since our RTO transaction as a result of the Company's rapid growth and continued expansion resulting in negative operating cash flow for the year ended December 31, 2020, we believe we have alleviated the risk. See Item 7A - "*Liquidity Risk*".

Cash flows

Cash and cash equivalents and restricted cash were $54,639 as of December 31, 2020, an increase of $28,039 from December 31, 2019. The following table details the change in cash, cash equivalents and restricted cash for the years ended December 31, 2020, 2019 and 2018.

Cash flows in thousands	**Year Ended December 31,**			**Better/(Worse) 2020 vs. 2019**		**Better/(Worse) 2019 vs. 2018**	
	2020	2019	2018	$	%	$	%
Net cash used in operating activities	$ (67,678)	$ (70,879)	$ (35,536)	$ 3,201	5 %	$ (35,343)	(99)%
Net cash used in investing activities	(69,302)	(14,609)	(235,692)	(54,693)	(374)	221,083	94
Net cash provided by financing activities	165,019	7,050	359,766	157,969	n/m	(352,716)	(98)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 28,039	$ (78,438)	$ 88,538	$ 106,477	n/m	$ (166,976)	n/m

n/m - Not Meaningful

Net cash used in operating activities

Cash used in operating activities were relatively flat during the year ended December 31, 2020, as compared with the corresponding prior period.

The increases in cash used in operating activities were primarily driven by an increase in general and administrative and compensation expenses during the year ended December 31, 2019 and 2018.

Net cash used in investing activities

Cash used in investing activities during the year ended December 31, 2020, as compared to the corresponding prior period, was primarily driven by the long-term investments of $35,067, the acquisition of Compassionate Care Foundation, Inc. ("CCF") for $9,983, net of cash acquired, $15,477 spent on capital expenditures to build out our owned operations and $14,809 advanced to entities, net of collections, with which we have a management or consulting services arrangement. This is partially offset by proceeds received from the sale of capital assets and the proceeds from the sale of Acreage North Dakota, LLC for $4,756 and $997, respectively.

Cash used in investing activities during the year ended December 31, 2019 was primarily driven by the maturing of short-term investments, which contributed $149,828. Offsetting this cash receipt were cash disbursements of $77,617 spent on the advanced payments and purchases of cannabis license holders and management contracts, $47,085 spent on capital expenditures to build out our owned operations and $35,981 advanced to entities, net of collections, with which we have a management or consulting services arrangement.

Cash used in investing activities during the year ended December 31, 2018 was primarily driven by the purchase of $148,684 in short-term investments, $61,267 spent on the advanced payments and purchases of cannabis license holders and management contracts, $22,351 spent on capital expenditures to build out our owned operations, and $10,964 advanced to entities, net of collections, with which we have a management or consulting services arrangement. Proceeds of $9,634 related to the sale of an investment partially offset these outflows.

Net cash provided by financing activities

Cash provided by financing activities during the year ended December 31, 2020 was primarily driven by proceeds from raising $31,117 as a result of the proceeds from a private placement and the issuance of warrants, $160,587 related to financing proceeds, $7,100 of related party debt proceeds, as well as $22,000 related to collateral received pursuant to a portion of the financing proceeds. This is partially offset by the repayment debt of $25,821, repayment of short-term related party debt of $22,100 as well as payments of deferred financing costs of $7,864.

Cash provided by financing activities during the year ended December 31, 2019 was primarily driven by proceeds from financing of $19,052 related to sale-leaseback transactions that were subsequently classified as finance leases and $15,000 in proceeds from short-term related party debt, partially offset by $12,333 in debt repayments and $10,306 paid to settle taxes withheld.

Cash provided by financing activities during the year ended December 31, 2018 was primarily driven by $298,644 in net proceeds from the private placement that preceded the RTO and $116,890 in net proceeds from our Series E funding round. Partially offsetting these proceeds were payments of $21,054 to settle tax obligations on behalf of certain investors, $19,643 used to purchase additional ownership in non-controlling interests and $17,838 in debt repayments.

Capital Resources

Capital structure and debt

Our debt outstanding as of December 31, 2020 and 2019 is as follows:

Debt balances	**December 31, 2020**		**December 31, 2019**	
NCCRE loan	$	470	$	492
Seller's notes		2,581		2,810
Related party debt		—		15,000
Financing liability (related party)		15,253		19,052
Finance lease liabilities		5,174		6,132
3.55% Credit facility due 2022		20,043		—
3.55% Credit facility collateral (related party)		22,169		—
Convertible debenture		—		—
Bridge loan		—		—
7.5% Loan due 2023 (related party)		32,124		—
6.1% Secured debenture due 2030 (related party)		46,085		—
Hempco Foros promissory note		2,000		—
Senior secured term loan facility		22,870		—
Construction financing loan		4,438		—
Canwell settlement promissory note		7,250		—
Total debt	**$**	**180,457**	**$**	**43,486**
Less: current portion of debt		27,139		15,300
Total long-term debt	**$**	**153,318**	**$**	**28,186**

Commitments and contingencies

Commitments

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

Definitive agreements

On April 17, 2019, the Company entered into a definitive agreement to acquire Deep Roots, a vertically integrated license holder in Nevada, for consideration of 4,762 High Street units and $20,000 in cash. We announced the termination of the agreement by Deep Roots on April 3, 2020 following March 31, 2020, the end date for consummating the transaction. The agreement was terminated due to the ongoing moratorium imposed by the Nevada Department of Taxation. The delay prevented the parties from obtaining the consents, approvals and authorizations necessary to consummate the merger prior to the outside date provided in the agreement.

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

On February 25, 2020, we entered into an agreement to sell all of our operations in Florida for an aggregate purchase price of $60,000. The sale is expected to close during the second quarter of 2021 subject to customary closing conditions including the procurement of all necessary approvals for the transfer to the Buyer of the Florida license for the operation of the medical marijuana businesses.

Canopy Growth

On June 19, 2019, the shareholders of the Company and of Canopy Growth Corporation ("**Canopy Growth**") separately approved the arrangement between the two companies, and on June 21, 2019, the Supreme Court of British Columbia granted a final order approving the arrangement. Effective June 27, 2019, the Articles of the Company were amended to provide Canopy Growth with the option (the "**Canopy Growth Call Option**") to acquire all of the issued and outstanding shares of the Company (each, an "**Acreage Share**"), with a requirement to do so upon a change in federal laws in the United States to permit the general cultivation, distribution and possession of marijuana (as defined in the relevant legislation) or to remove the regulation of such activities from the federal laws of the United States, 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**").

On June 24, 2020, we entered into a proposal agreement (the "**Proposal Agreement**") with Canopy Growth which set out, among other things, the terms and conditions upon which us and Canopy Growth were proposing to enter into an amending agreement (the "**Amending Agreement**") which, among other things, provided for certain amendments to the Original Arrangement Agreement and, as further amended on September 23, 2020 (the "**Arrangement Agreement**") and the amendment and restatement of the plan of arrangement implemented by us on June 24, 2019 ((the "**Amended Plan of Arrangement**") to implement the arrangement contemplated in the Arrangement Agreement (the "**Amended Arrangement**") pursuant to the *Business Corporations Act* (British Columbia) ("**BCBCA**")). The effectiveness of the Amending 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 (the "**Court**") at a hearing upon the procedural and substantive fairness of the terms and conditions of the Amended Arrangement; and (ii) our shareholders, as required by applicable corporate and securities laws.

The Amended Arrangement was approved by our shareholders at our special meeting held on September 16, 2020 and a final order approving the Amended Arrangement was obtained from the Court on September 18, 2020.

Following the satisfaction of various conditions set forth in the Proposal Agreement, on September 23, 2020, we entered into the Amending Agreement with Canopy Growth and implemented the Amended Plan of 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, among other things, Canopy Growth made a cash payment of $37,500,024 (the "**Aggregate Amendment Option Payment**"), to our shareholders and certain holders of securities convertible or exchangeable into our shares. Holders of our then outstanding Class A subordinate voting shares (the "**SVS**"), Class B proportionate voting shares (the "**PVS**"), Class C multiple voting shares (the "**MVS**"), and certain other parties, received approximately $0.30 per SVS, being their pro rata portion (on an as-converted to SVS basis) of the Aggregate Amendment Option Payment, based on the number of our outstanding shares and certain holders of securities convertible or exchangeable into our shares, as of the close of business on September 22, 2020, the record date for payment of the Aggregate Amendment Option Payment. The Aggregate Amendment Option Payment was distributed to such holders of record on or about September 25, 2020.

Upon implementation of the Amended Plan of Arrangement, our articles were amended to, among other things, create three new classes of shares in our authorized share structure, being Fixed Shares, Floating Shares and Class F multiple voting shares (the "**Fixed Multiple Shares**"), and, in connection with such amendment, we completed a capital reorganization (the "**Capital Reorganization**") effective as of the Amendment Time whereby: (i) each then outstanding SVS was exchanged for 0.7 of a Fixed Share and 0.3 of a Floating Share; (ii) each then outstanding PVS was exchanged for 28 Fixed Shares and 12 Floating Shares; and (iii) each then 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 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.

As a condition to implementation of the Amended Arrangement, an affiliate of Canopy Growth advanced the first tranche of $50.0 million of a loan of up to $100.0 million (the "**Hempco Loan**") to Universal Hemp, LLC, an affiliate of the Company that operates solely in the hemp industry in full compliance with all applicable laws ("**Universal Hemp**") pursuant to a secured debenture (the "**Debenture**") bearing interest at a rate of 6.1% per annum and maturing 10 years from the date thereof. All interest payments made pursuant to the Debenture are payable in cash by Universal Hemp. The Debenture is not convertible and is not guaranteed by Acreage. A further $50.0 million advance will be made available upon satisfaction of specified conditions precedent. 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.

Pursuant to the Amended Plan of Arrangement, upon the occurrence, or waiver (at the discretion of Canopy Growth), of 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 the date on which the Triggering Event occurs, 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 (the "**Fixed Exchange Ratio**") of a common share of Canopy Growth (each, a "**Canopy Growth Share**") for each Fixed Share held 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. Upon exercise of the Floating Call Option, Canopy Growth may acquire the Floating Shares for cash or for Canopy Growth Shares or a combination thereof, in Canopy Growth's sole discretion. If paid in cash, the price per Floating Share shall be equal to the volume-weighted average trading price of the Floating Shares on the CSE (or other recognized stock exchange on which the Floating Shares are primarily traded as determined by volume) for the 30 trading day period prior to the exercise (or deemed exercise) of the Canopy Call Option, subject to a minimum amount of $6.41 (the "**Floating Cash Consideration**"). If paid in Canopy Growth Shares, each Floating Share will be exchanged for a number of Canopy Growth Shares equal to (i) the volume-weighted average trading price of the Floating Shares on the CSE (or other recognized stock exchange on which the Floating Shares are primarily traded as determined by volume) for the 30 trading day period prior to the exercise (or deemed exercise) of the Canopy Call Option, subject to a minimum amount of $6.41, divided by (ii) the volume-weighted average trading price (expressed in US$) of the Canopy Growth Shares on the New York Stock Exchange (the "**NYSE**") (or such other recognized stock exchange on which the Canopy Growth Shares are primarily traded if not then traded on the NYSE) for the 30 trading day period immediately prior to the exercise (or deemed exercise) of the Canopy Call Option (the "**Floating Ratio**"). The Floating Ratio is subject to adjustment in accordance with the Amended Plan of Arrangement if Acreage issues greater than the permitted number of Floating Shares prior to the Acquisition Date. No fractional Canopy Shares will be issued pursuant to the Amended Plan of Arrangement. The Floating Call Option cannot be exercised unless the Canopy Call Option is exercised (or deemed to be exercised). 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 (the "**Acquisition**") 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.

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 Floating Call Option is exercised, and Canopy Growth acquires the Floating Shares at the Acquisition Time, we will be a wholly-owned subsidiary of Canopy Growth. If Canopy Growth completes the Acquisition of the Fixed Shares but does not acquire the Floating Shares, the Floating Call Option will terminate, and the Floating Shares shall remain outstanding. In such event, the Amending Agreement provides for, among other things: (i) various Canopy Growth rights that extend beyond the Acquisition Date and continue until Canopy Growth the date (the "**End Date**") Canopy Growth ceases to hold at least 35% of the issued and outstanding Acreage shares. These include, among other things, rights to nominate a majority of Acreage's Board of Directors (the "**Board**") following the Acquisition Time, and restrictions on Acreage's ability to conduct mergers and acquisitions above certain thresholds or incur certain indebtedness without Canopy Growth's consent

The Amending Agreement also provides that Acreage may issue a maximum of 32,700,000 shares (or convertible securities in proportion to the foregoing), which will include (i) 3,700,000 Floating Shares which are to be issued solely in connection with the exercise of stock options granted to Acreage management (the "**Option Shares**"); (ii) 8,700,000 Floating Shares other than the Option Shares; and (iii) 20,300,000 Fixed Shares, without a revision to the Fixed Exchange Ratio. 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 $3.0 million 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 500,000 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 $20.0 million, subject to specific limitations as set out in the Amending Agreement.

For more information, please refer to the Amending Agreement included as an exhibit to this Annual Report on Form 10-K.

Pursuant to the Amending Agreement, Acreage agreed to submit an Approved Business Plan to Canopy Growth on a quarterly basis that complies with certain specified criteria, including a business plan for the fiscal years ending December 31, 2020 through December 31, 2029 attached as a Schedule to the Proposal Agreement (the "**Initial Business Plan**"). The Initial Business Plan contains annual revenue and earnings targets for each of Acreage's fiscal years ending on December 31, 2020 to December 31, 2029, as outlined below:

Fiscal Year Ending	Pro-Forma Net Revenue Target (in US$ thousands)	Consolidated Adj. EBITDA Target (in US$ thousands)
2020	166,174	(22,499)
2021	253,296	36,720
2022	289,528	53,222
2023	375,274	102,799
2024	558,599	166,744
2025	641,047	190,385
2026	740,194	218,108
2027	848,498	244,402
2028	973,402	273,434
2029	1,120,177	305,840

A number of factors may cause Acreage to fail to meet the Pro-Forma Net Revenue Targets or the Consolidated Adj. EBITDA Targets set forth in the Initial Business Plan and outlined above. See "*Risk Factors*".

In the event that Acreage has not satisfied: (i) 90% of the Pro-Forma Net Revenue Target or the Consolidated Adj. EBITDA Target set forth in the Initial Business Plan, measured on a quarterly basis, an Interim Failure to Perform will occur and the Austerity Measures shall become applicable. The Austerity Measures include, among other things:

(a) restrictions on Acreage's ability to issue shares (or securities convertible into shares) other than:

  (i) upon the exercise or conversion of convertible securities outstanding as such date; and

  (ii) contractual commitments existing as of the;

(b) prohibitions on entering into any contract in respect of Company Debt, other than in respect of trade payables or similar obligations incurred in the ordinary course;

(c) granting any options to acquire Fixed Shares or Floating Shares;

(d) making payments of fees owed to the Board;

(e) making short-term incentive or bonus payments to any Acreage employee;

(f) entering into any contract with respect to the disposition of any assets other than inventory in the ordinary course;

(g) entering into any contract with respect to any business combination, merger or acquisition of assets, other than assets acquired in the ordinary course;

(h) making any new capital investments or incurring any new capital expenditures; and

(i) increasing the number of Acreage employees that have a base salary of $150,000 or more or more than five full time employees that would be included in corporate overhead expenditures.

The Austerity Measures provide significant restrictions on Acreage's ability to take certain actions otherwise permitted by the Amended Arrangement Agreement; (ii) 80% of the Pro-Forma Net Revenue Target or the Consolidated Adj. EBITDA Target set forth in the Initial Business Plan, as determined on an annual basis (commencing in respect of the fiscal year ending December 31, 2021), a Material Failure to Perform will occur and (a) certain restrictive covenants applicable to Canopy Growth under the Amended Arrangement Agreement will cease to apply in order to permit Canopy Growth to acquire, or conditionally acquire, a competitor of the Company in the United States should it wish to do so, and (b) an event of default under the Debenture will likely occur resulting in the Hempco Loan becoming immediately due and payable; and (iii) 60% of the Pro-Forma Net Revenue Target or the Consolidated Adj. EBITDA Target 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 Failure to Perform shall occur and 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.

As of December 31, 2020, the Company was in compliance with both the Pro-Forma Net Revenue Target and the Consolidated Adj. EBITDA Target set forth in the Initial Business Plan.

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 December 31, 2020, for which no liabilities are recorded on the Consolidated Statements of Financial Position.

The Company is subject to other capital commitments and similar obligations. As of December 31, 2020 and 2019, such amounts were not material.

Contingencies

As of December 31, 2020, the Company had maximum obligations of $8,750 and 280 Fixed Shares and 120 Floating Shares, related to consulting fees payable which are contingent upon successful acquisition of certain state cannabis licenses. No reserve for the contingencies has been recorded as of December 31, 2020.

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulations as of December 31, 2020, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

The Company may be, from time to time, subject to various administrative, regulatory and other legal proceedings arising in the ordinary course of business. Contingent liabilities associated with legal proceedings are recorded when a liability is probable, and the contingent liability can be reasonably estimated.

Standby Equity Distribution Definitive Agreement

On May 29, 2020, the Company entered into an agreement with an institutional lender for $50,000 of financing commitments under a Standby Equity Distribution Agreement ("**SEDA**"). The 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, at a purchase price of 95% of the market price over the course of 24 months from the effective date. In consideration for entering the SEDA, 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.

On each of September 28, 2020 and January 25, 2021, the Company entered into letter agreements (the "**Letter Agreements**") with the institutional investor extending the termination deadline of the SEDA to the earliest of November 30, 2020 and June 30, 2021, respectively, and the date that we have obtained both a receipt from the Ontario Securities Commission for a short-form final base shelf prospectus and a declaration from the United States Securities and Exchange Commission that its registration statement is effective, in each case qualifying an At-The-Market equity offering program. On March 11, 2021, the SEDA termination deadline was further extended to April 15, 2022.

EPMMNY

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. A Special Referee hearing relating to the motion to dismiss has been scheduled for May 2021. The plaintiff also filed a motion seeking a preliminary injunction of any transfer of our assets. This motion was fully briefed and we are awaiting the courts decision.

CanWell Dispute

The CanWell dispute is comprised of five separate proceedings:

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 *Loss on legal settlements* on the Consolidated Statements of Operations for the year ended December 31, 2020. In connection with this settlement agreement, the Company issued a promissory note in the amount of $7,750 to CanWell, which is non-interest bearing and is payable in periodic payments through December 31, 2024, of which the first payment of $500 was made in November 2020.

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, which the Company has accrued for in *Loss on legal settlements* on the Consolidated Statements of Operations for year ended December 31, 2020. The first and second payments of $1,000 was made in November 2020 and December 2020, respectively, and the final payment will be due on December 31, 2021.

Compass Neuroceuticals

In February 2021, a JAMS arbitration was initiated in Atlanta by Acreage Georgia LLC ("**Acreage Georgia**") against its former consultant, Compass Neuroceuticals, Inc. ("**Compass**"), stemming from Compass' breach of the consulting agreement entered into between the parties in June 2019, related to the preparation of an application for a Class 1 cultivation license in Georgia. Acreage Georgia is alleging damages, including lost profits, of approximately $9.0 million. Compass filed counterclaims for breach, also in the $9.0 million range. A final arbitration hearing is currently scheduled for August 2021. The matter is in its early stages, therefore, it is too early to ascertain the materiality of any potential settlement or judgment, but the Company plans to defend itself vigorously in this matter.

Contractual obligations

Our contractual obligations include amounts reflected on our balance sheet, as well as off-balance sheet arrangements. As of December 31, 2020, our significant contractual arrangements were as follows:

Contractual obligations

in thousands	Total	Less than 1 year	1-3 years	3-5 years	5+ years
Off-balance sheet arrangements					
Purchase obligations	$ —	—	—	—	—
On-balance sheet arrangements					
Operating lease obligations	30,935	4,733	6,208	5,881	14,113
Finance lease obligations	16,887	680	1,423	1,509	13,275
Debt obligations	160,030	27,139	62,353	24,453	46,085
Total	**$ 207,852**	**$ 32,552**	**$ 69,984**	**$ 31,843**	**$ 73,473**

Critical accounting policies and estimates

The preparation of financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are evaluated on an ongoing basis and are based on historical experience and other assumptions that we believe are reasonable.

The estimates and assumptions management believes could have a significant impact on our financial statements are discussed below. For a summary of our significant accounting policies, refer to Note 2 of the Consolidated Financial Statements.

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. It is possible, however, that at some future date, an additional liability could result from audits by taxing authorities. If the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Business combinations

The Company must assess whether an entity being purchased constitutes a business, which requires an assessment of inputs and processes in place at the acquiree. The fair value of assets acquired and liabilities assumed requires management to make significant estimates. Judgment is required to determine when the Company gains control of an investment. This requires an assessment of the relevant activities of the investee that significantly affect its returns, including operating and capital expenditure decision-making, financing of the investee, key management personnel changes and when decisions in relation to those activities are under the control of the Company or require unanimous consent from the investors. Investments in which the Company does not gain control are accounted for as equity-method investments (if the Company has significant influence) or as investments held at fair value with changes recognized through net income (if the Company has no significant influence). Refer to Note 3 and Note 4 of the Consolidated Financial Statements for further discussion.

Impairment on notes receivable

At each reporting date the Company assesses whether the credit risk on its promissory notes receivable has increased significantly since initial recognition.

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

Indefinite-lived and long-lived intangible assets are tested at the individual business unit level, which is the lowest level for which identifiable cash flows are largely independent of other assets and liabilities. In testing for impairment, indefinite-lived intangibles and long-lived intangible assets are tested before goodwill. Indefinite-lived intangibles, long-lived assets and goodwill are first assessed qualitatively to determine whether it is more likely than not that the asset is impaired.

If it is determined qualitatively that an asset is likely impaired, a quantitative assessment will be performed. Indefinite-lived intangible assets are assessed quantitatively by determining the present value of discounted cash flows and comparing it to the carrying amount of such assets. Finite-lived intangible assets and other long-lived assets are tested for impairment by determining the undiscounted cash flows expected from the use and eventual disposition of the asset, and comparing it to its carrying amount. Goodwill is tested quantitatively by determining the fair value of the reporting unit and comparing it to the carrying amount, including goodwill, of the reporting unit. If the fair value is greater than the reporting unit's carrying value, the goodwill is not deemed impaired. If the fair value is less than the carrying amount, the implied fair value of goodwill must be determined to compare to the carrying value of the goodwill.

As of December 31, 2020, our goodwill held at our single reportable segment was $31,922.

The Company estimated the recoverable amounts of goodwill and indefinite-lived intangible assets by estimating the higher of their fair value less costs of disposal and value in use, which are Level 3 measurements within the fair value hierarchy. The key assumptions that drove management's determination of the recoverable amounts of the reporting units were:

- Revenue multiples of comparable industry peers.
- Expected proceeds from a sale in an orderly transaction.
- Expected cash flows based on our business plans for the reporting units and underlying assets.
- In order to risk-adjust the cash flow projections in determining value in use, we utilized an after-tax discount rate of approximately 11.10%.

Management assigned value to each input based on past experience and industry expectations. The tests performed through the year ended December 31, 2020 resulted in the impairment of certain finite and indefinite-lived intangible assets. Refer to Note 4 of the consolidated financial statements for further information. The Company does not believe a slight change in the key assumptions would cause the recoverable amount of any non-impaired reporting unit to fall below its carrying amount.

Assets held for sale and liabilities related to 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.

During the year ended December 31, 2020, management determined certain businesses and assets met the held-for-sale criteria. Upon classification of the disposal groups as held for sale, the Company tested each disposal group for impairment and recognized charges of $11,003 for the year ended December 31, 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 Consolidated Statements of Financial Position. Refer to Note 3 of the consolidated financial statements for further information. The Company's determination of businesses and assets which meet the held-for-criteria, including the process of estimating the fair value measurements pursuant to ASC 820, *Fair Value Measurements*, requires the use of significant judgements and estimates. Such assets did not meet the criteria for reporting as discontinued operations.

Emerging growth company status

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. We have elected to use this exemption from new or revised accounting standards and, therefore, we will be not subject to the same new or revised accounting standards as other public companies that have made this election.

For as long as we continue to be an emerging growth company, we intend to take advantage of certain other exemptions from various reporting requirements that are applicable to other public companies including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our Fixed or Floating Shares less attractive because we will rely on these exemptions. If some investors find our Fixed or Floating Shares less attractive as a result, there may be a less active trading market for our Fixed or Floating Shares and our stock price may be more volatile.

We will remain an emerging growth company until the earliest of (i) the last day of the year in which we have total annual gross revenue of $1.07 billion or more; (ii) the last day of the year following the fifth anniversary of the first sale of common equity securities pursuant to an effective registration under the Securities Act, which is December 31, 2024; (iii) the date on which we have issued more than $1.0 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

Regulatory Disclosures

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) - *Issuers with U.S. Marijuana-Related Activities*, we have provided in Item 1 a discussion of the federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently involved, through High Street , in the cannabis industry. See Item 1 - *Regulatory Framework*.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk (presented in thousands, except share amounts).

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

Market risk

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

Credit risk

The Company's exposure to non-payment or non-performance by its counterparties is a credit risk. The maximum credit exposure as of December 31, 2020 is the carrying amount of cash and cash equivalents, restricted cash, and accounts, notes and other receivables. The Company does not have significant credit risk with respect to customers. The Company mitigates its credit risk on its notes and other receivables by securing collateral, such as capital assets, and by its review of the counterparties and their businesses. The Company considers a variety of factors when determining interest rates for notes receivable, including the creditworthiness of the counterparty, market interest rates prevailing at the note's origination, and duration and terms of the note. The Company determined expected credit losses to be immaterial due to collateral held. Analysis of collateral held and future expected cash flows within the cannabis industry were considered in its expected credit loss assessment.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company endeavors to ensure that there is sufficient liquidity in order to meet short-term business requirements, after taking into account the Company's cash holdings. As of December 31, 2020, the Company's financial liabilities consist of accounts payable and accrued liabilities, lease liabilities and long-term debt. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis.

As reflected in the Consolidated Financial Statements, the Company had an accumulated deficit and a negative net working capital (current liabilities greater than current assets) as of December 31, 2020, as well as a net loss and negative cash flow from operating activities for the reporting period then ended. These factors raise substantial doubt about the Company's ability to continue as a going concern for at least one year from the issuance of these financial statements.

However, management believes that substantial doubt of our ability to meet our obligations for the next twelve months from the date these financial statements were first made available has been alleviated due to, but not limited to, (i) access to future capital commitments, (ii) continued sales growth from our consolidated operations, (iii) latitude as to the timing and amount of certain operating expenses as well as capital expenditures, (iv) restructuring plans that have already been put in place to improve the Company's profitability, (v) the Standby Equity Distribution Agreement (refer to Note 13 and 17 of the Consolidated Financial Statements for further discussion) and (vi) the anticipated Non-Core Divestitures (refer to Note 3 of Consolidated Financial Statements for further discussion).

If the Company is unable to raise additional capital whenever necessary, it may be forced to decelerate or curtail its footprint buildout or other operational activities until such time as additional capital becomes available. Such limitation of the Company's activities would allow it to slow its rate of spending and extend its use of cash until additional capital is raised. However, management cannot provide any assurances that we will be successful in accomplishing any of our plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur at any time within the next twelve months or thereafter which could increase our need to raise additional capital on an immediate basis.

Asset forfeiture risk

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

Banking risk

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

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

Interest rate risk

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

Capital risk management

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach during the year ended December 31, 2020.

As reflected in the Consolidated Financial Statements, the Company had an accumulated deficit and a negative net working capital (current liabilities greater than current assets) as of December 31, 2019, as well as a net loss and negative cash used in operating activities for the year ended December 31, 2020. These factors raise substantial doubt about the Company's ability to continue as a going concern for at least one year from the issuance of these financial statements.

However, management believes that substantial doubt of our ability to meet our obligations for the next twelve months from the date these financial statements were first made available has been alleviated due to, but not limited to, (i) access to future capital commitments, (ii) continued sales growth from our consolidated operations, (iii) latitude as to the timing and amount of certain operating expenses as well as capital expenditures, (iv) restructuring plans that have already been put in place to improve the Company's profitability, (v) the Standby Equity Distribution Agreement (refer to Note 13 and 17 of the Consolidated Financial Statements for further discussion) and (vi) the anticipated Non-Core Divestitures (refer to Note 3 of Consolidated Financial Statements for further discussion).

If the Company is unable to raise additional capital whenever necessary, it may be forced to decelerate or curtail its footprint buildout or other operational activities until such time as additional capital becomes available. Such limitation of the Company's activities would allow it to slow its rate of spending and extend its use of cash until additional capital is raised. However, management cannot provide any assurances that we will be successful in accomplishing any of our plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur at any time within the next twelve months or thereafter which could increase our need to raise additional capital on an immediate basis.