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

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

This MD&A should be read in conjunction with the Company's unaudited condensed consolidated financial statements for the three month period ended March 31, 2021 and related notes appearing elsewhere in this Quarterly Report on Form 10-Q (this "Quarterly Report" or "Form 10-Q") and the 2020 Form 10-K. Financial information presented in this MD&A is presented in thousands of U.S. dollars, unless otherwise indicated.

Cautionary Statement Regarding Forward Looking-Statements

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

Generally, forward-looking statements may be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "proposed", "is expected", "budgets", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved. There can be no assurance that such forward-looking statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such forward-looking statements. Forward-looking statements reflect Acreage's current beliefs and are based on information currently available to Acreage and on assumptions Acreage believes are reasonable. Forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Acreage to be materially different from those expressed or implied by such forward-looking statements. Such risks and other factors may include, but are not limited to:

- the future implications to the business, financial results and performance of the Company arising, directly or indirectly, from COVID-19;
- the anticipated benefits of the Amended Arrangement;
- the occurrence or waiver of the Triggering Event (as described in Note 13 of the unaudited condensed consolidated financial statements);
- the ability of Acreage to satisfy the conditions to closing of the Acquisition;
- the ability of Acreage to meets its performance targets and financial thresholds agreed upon with Canopy Growth as part of the Amended Arrangement, including those that are conditions to closing the Acquisition;
- the likelihood of the Triggering Event being satisfied or waived by the outside date;
- the likelihood of Canopy Growth completing the acquisition of the Fixed Shares and/or Floating Shares;
- risks related to the ability to financing Acreage's business and fund its obligations;
- other expectations and assumptions concerning the transactions contemplated between Canopy Growth and Acreage;
- the available funds of Acreage and the anticipated use of such funds;
- the availability of financing opportunities for Acreage and the risks associated with the completion thereof;
- regulatory and licensing risks;
- changes in general economic, business and political conditions, including changes in the financial and stock markets;

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

A description of additional assumptions used to develop such forward-looking statements and a description of additional risk factors that may cause actual results to differ materially from forward-looking statements can be found in Part I, Item 1A of the Company's Annual Report on Form 10-K, under the heading "Risk Factors", dated March 25, 2021, as filed with the Securities and Exchange Commission. Although Acreage has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Readers are cautioned that the foregoing list of factors is not exhaustive. Readers are further cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are placed will occur. Forward-looking statements contained in this Form 10-Q are expressly qualified by this cautionary statement. The forward-looking statements contained in this Form 10-Q represent the expectations of Acreage as of the date of this Form 10-Q and, accordingly, are subject to change after such date. However, Acreage expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities law.

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

- ***Overview***—This section provides a general description of the Company's businesses, as well as developments that occurred during the three months ended March 31, 2021 and 2020 that the Company believes are important in understanding its results of operations and financial condition or to disclose known trends.

- ***Results of Operations***—This section provides an analysis of the Company's results of operations for the three months ended March 31, 2021 and 2020. This analysis is presented on a consolidated basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

- ***Liquidity and Capital Resources***—This section provides an analysis of the Company's cash flows for the three months ended March 31, 2021 and 2020, as well as a discussion on the Company's outstanding debt and commitments that existed as of March 31, 2021. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund the Company's future commitments and obligations, as well as a discussion of other financing arrangements.

Overview

Acreage, 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 unaudited condensed 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. The Company's 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. The Company appeals to medical and adult-use customers through brand strategies intended to build trust and loyalty.

Highlights from the three months ended March 31, 2021

- The Company achieved total consolidated revenue growth of 58% as compared with the three months ended March 31, 2020.

- The Company opened a third The Botanist dispensary in Williamstown, New Jersey.

- The Company entered into an agreement to sell its operations in Florida, which is consistent with its overall strategy to focus on its core states.

- The Company extended the maturity date related to $21,000 of the $22,000 3.55% Credit facility collateral loan.

Operational and Regulation Overview

The Company believes its operations are in material compliance with all applicable state and local laws, regulations and licensing requirements in the states in which it operates. However, cannabis is illegal under U.S. federal law. Substantially all of the Company's revenue is derived from U.S. cannabis operations. For information about risks related to U.S. cannabis operations, please refer to Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Results of Operations

The following table presents selected financial data derived from the unaudited condensed consolidated financial statements of the Company for the three months ended March 31, 2021 and 2020. The selected financial information set out below may not be indicative of the Company's future performance.

Summary Results of Operations in thousands, except per share amounts	**Three Months Ended March 31,**		**Better/(Worse) 2021 vs. 2020**	
	2021	2020	$	%
Revenues, net	$ 38,393	$ 24,225	$ 14,168	58 %
Operating income (loss)	1,806	(251,282)	253,088	n/m
Net loss attributable to Acreage	(7,809)	(171,954)	164,145	95 %
Basic and diluted loss per share attributable to Acreage	$ (0.07)	$ (1.85)	$ 1.78	96 %

Revenues, net, cost of goods sold and gross margin

The Company derives its revenues from sales of cannabis and cannabis-infused products through retail dispensary, wholesale and manufacturing and cultivation businesses, as well as from management or consulting fees from entities for whom the Company provides management or consulting services. As of March 31, 2021, Acreage owned and operated five dispensaries in Oregon (three in Portland, one in Eugene and one in Springfield), four in New York (Buffalo, Farmingdale, Middletown, and Queens), three in New Jersey (Atlantic City, Egg Harbor and Williamstown), 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). As of March 31, 2021, Acreage had cultivation facilities in Sinking Spring, Pennsylvania, Sterling, Massachusetts, Syracuse, New York, Freeport, Illinois, Sanderson, Florida and Egg Harbor, New Jersey. Acreage also collected management services revenues, substantially all in Maine and New Hampshire.

Gross profit is revenue less cost of goods sold. Cost of goods sold includes costs directly attributable to inventory sold such as direct material, labor, and overhead, including depreciation. 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 in thousands	**Three Months Ended March 31,**		**Better/(Worse) 2021 vs. 2020**	
	2021	2020	$	%
Retail revenue, net	$ 25,847	$ 17,573	$ 8,274	47 %
Wholesale revenue, net	10,016	6,548	3,468	53 %
Other revenue, net	2,530	104	2,426	n/m
Total revenues, net	$ 38,393	$ 24,225	$ 14,168	58 %
Cost of goods sold, retail	(13,082)	(10,889)	(2,193)	(20)%
Cost of goods sold, wholesale	(4,690)	(3,382)	(1,308)	(39)%
Total cost of goods sold	$ (17,772)	$ (14,271)	$ (3,501)	(25)%
Gross profit	$ 20,621	$ 9,954	$ 10,667	107 %
Gross margin	54 %	41 %		13 %

Total revenue increased by $14,168 or 58% for the three months ended March 31, 2021, as compared to the corresponding period of fiscal 2020. Excluding the increase in other revenues, net, which was driven by increased management services revenue, total revenue increased 49% for the three months ended March 31, 2021, as compared to the corresponding period of fiscal 2020.

Retail revenue saw an increase of 47% for the three months ended March 31, 2021, as compared to the corresponding period of fiscal 2020. The increase in retail revenue, net of $8,274 for the three months ended March 31, 2021, was primarily driven by increased demand and production across various states of $5,344 (primarily Illinois, Massachusetts, New York, Maine, Connecticut and Florida), along with CCF ($4,363) driven by its acquisition in June 2020. Specific drivers of increased demand included, i) the opening of another adult-use dispensary in Illinois, ii) the launching of new The Botanist branded products into the retail channel in Ohio and New York, iii) the opening of new stores in New York and iv) increased business in Massachusetts and Connecticut. These increases were partially offset by the net impact of the divestitures and decreased demand and production in non core states.

Wholesale revenue increased 53% for the three months ended March 31, 2021, as compared to the corresponding periods of fiscal 2020. The increases in wholesale revenue for the three months ended March 31, 2021 were primarily due to increased capacity, coupled with maturing operations at the Company's Pennsylvania, Massachusetts, and Illinois cultivation facilities. This resulted in higher yields and product mix in each of the respective markets.

Other revenue increased for the three months ended March 31, 2021, as compared to the corresponding period of fiscal 2020, primarily due to the recognition of previously unrecognized management fees in New Hampshire, some of which relates to prior periods.

While total revenues increased 58%, total costs of goods sold only increased 25% for the three months ended March 31, 2021, as compared with the corresponding periods of fiscal 2020.

Retail cost of goods sold increased 20% for the three months ended March 31, 2021, as compared to the corresponding period of fiscal 2020, and below the 47% increase in retail revenue. While retail cost of goods sold increased due to the volume increase associated with the retail revenue growth, the rate of growth was lower primarily as a result of the Company's vertically integrated sales and distribution channels.

Wholesale cost of goods sold increased 39% for the three months ended March 31, 2021, as compared to the corresponding period of fiscal 2020, and below the 53% increase in wholesale revenue. While wholesale cost of goods sold increased due to the volume increase associated with the wholesale revenue growth, the rate of growth was lower as a result of production efficiencies being achieved. In addition, wholesale cost of goods sold for the comparative period were driven by the initial set up costs and consequential expansion impact of various cultivation facilities that did not occur in the current period. Finally, the suspension of operations at Form Factory Holdings, LLC ("Form Factory"), a manufacturer and distributor of cannabis-based edibles and beverages, since March 2020 partially offset the increase in costs of wholesale goods sold in the current period, as a result of consequential inventory write-offs that were recognized in the comparable period.

Gross margin for the three months ended March 31, 2021 was 53.7%, compared to 41.1% for the three months ended March 31, 2020. The increase in gross margin was driven by the factors discussed above.

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 in thousands	**Three Months Ended March 31,**		**Better/(Worse) 2021 vs. 2020**	
	2021	2020	$	%
New England	$ 18,056	$ 11,323	$ 6,733	59 %
Mid-Atlantic	12,135	7,086	5,049	71 %
Midwest	5,872	2,943	2,929	100 %
West	1,859	2,803	(944)	(34)%
South	471	70	401	573 %
Total revenues, net	$ 38,393	$ 24,225	$ 14,168	58 %

n/m - Not Meaningful

Total operating expenses

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

Operating expenses				**Better/(Worse)**
in thousands	**Three Months Ended March 31,**		**2021 vs. 2020**	
	2021	2020	$	%
General and administrative	$ 9,218	$ 13,032	$ 3,814	29 %
Compensation expense	10,362	14,477	4,115	28 %
Equity-based compensation expense	6,042	34,737	28,695	83 %
Marketing	12	987	975	99 %
Impairments, net	818	187,775	186,957	100 %
Loss on notes receivable	—	8,161	8,161	n/m
Recovery of assets held-for-sale	(8,616)	—	8,616	n/m
Legal settlements, net	10	—	(10)	n/m
Depreciation and amortization	969	2,067	1,098	53 %
Total operating expenses	$ 18,815	$ 261,236	$ 242,421	93 %

n/m - Not Meaningful

Total operating expenses for the three months ended March 31, 2021 were $18,815, a decrease of $242,421 or 93% from the corresponding period of fiscal 2020. The primary drivers of the decrease in operating expenses were as follows:

- General and administrative expenses decreased during the three months ended March 31, 2021, as compared to the corresponding period of fiscal 2020, primarily due to a reduction of legal fees and rental and lease expenses incurred.
- Compensation expense decreased during the three months ended March 31, 2021, as compared to the corresponding period of fiscal 2020, primarily due to a reduction in costs related to reorganization efforts undertaken in the previous period.
- Equity-based compensation expense decreased during the three months ended March 31, 2021, as compared to the corresponding period of fiscal 2020, primarily due to costs related to the reorganization efforts undertaken in the previous period, resulting in the acceleration of restricted share vesting for Form Factory employees and previously issued awards becoming fully vested and cancelled in the prior period.
- Marketing expenses decreased during the three months ended March 31, 2021, as compared to the corresponding period of fiscal 2020, primarily due to significantly reduced marketing activities in the current period.
- Impairment expenses, net for the corresponding three months ended March 31, 2020 included impairment charges related interim intangible and goodwill impairment testing undertaken in the prior period due to the triggering event caused by the COVID-19 pandemic, as further discussed in Note 4 in the unaudited condensed consolidated financial statements. No such impairment charge was required in the three months ended March 31, 2021.
- Loss on notes receivable decreased during the three months ended March 31, 2021, as compared to the corresponding period of fiscal 2020, as there were no similar write-offs of notes receivable in the current 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 write down charges. During the three months ended March 31, 2021, the Company entered in a definitive agreement to sell its Acreage Florida disposal group at a purchase price in excess of the previously estimated fair value less costs to sell. Accordingly, the Company recognized a recovery of assets held-for-sale related to its Acreage Florida disposal group related to the previously recognized write-down of assets held-for-sale. Refer to Notes 3 and 17 in the unaudited condensed consolidated financial statements for further discussion.
- Depreciation and amortization expenses decreased during the three months ended March 31, 2021, compared to the corresponding period of fiscal 2020, due a lower net carrying value of certain fixed assets and intangible assets on which depreciation and amortization expense is determined as a result of prior period impairment charges.

Total other (loss) income

Other (loss) income							**Better/(Worse)**	
in thousands	**Three Months Ended March 31,**				**2021 vs. 2020**			
	2021		2020		$		%	
(Loss) income from investments, net	$	(144)	$	234	$	(378)	n/m	
Interest income from loans receivable		1,465		1,647		(182)	(11)%	
Interest expense		(4,857)		(1,226)		(3,631)	(296)%	
Other loss, net		(1,566)		(174)		(1,392)	(800)%	
Total other (loss) income	$	(5,102)	$	481	$	(5,583)	n/m	

n/m - Not Meaningful

Interest expense, net increased during the three months ended March 31, 2021, compared to the corresponding period of fiscal 2020, due to the Company's increased debt financing transactions primarily undertaken subsequent to the three months ended March 31, 2020. The increase in *Other loss, net* was primarily related to higher losses on the disposal of capital assets related to Form Factory incurred during the three months ended March 31, 2021.

Net loss

Net loss							**Better/(Worse)**
in thousands	**Three Months Ended March 31,**				**2021 vs. 2020**		
	2021		2020		$		%
Net loss	$	(8,642)	$	(222,229)	$	213,587	96 %
Less: net loss attributable to non-controlling interests		(833)		(50,275)		49,442	98 %
Net loss attributable to Acreage Holdings, Inc.	$	(7,809)	$	(171,954)	$	164,145	95 %

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources and uses of cash

The Company's primary uses of capital include operating expenses, capital expenditures and the servicing of outstanding debt. The Company's primary sources of capital include funds generated by cannabis sales as well as financing activities. Through March 31, 2021, the Company had primarily used private financing as a source of liquidity for short-term working capital needs and general corporate purposes.

In March 2021, the Company extended the maturity date related to $21,000 of the $22,000 aggregate amount of the loan transaction to June 30, 2021, as described in Note 10 to the unaudited condensed consolidated financial statements.

The Company's ability to fund its operations, capital expenditures, acquisitions, and other obligations depends on its future operating performance and ability to obtain financing, which are subject to prevailing economic conditions, as well as financial, business and other factors, some of which are beyond the Company's control.

The Company expects that its cash on hand and cash flows from operations, along with its 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 the Company's liquidity risk has increased since its RTO transaction as a result of the Company's rapid growth and continued expansion, which resulted in negative operating cash flow for the year ended December 31, 2020, the Company believes it has alleviated the risk. Please see the disclosures under "*Basis of presentation and going concern*" in Note 2 to the unaudited condensed consolidated financial statements.

Cash flows

Cash and cash equivalents and restricted cash were $45,941 as of March 31, 2021, an increase of $9,902 from March 31, 2020. The following table summarizes the change in cash, cash equivalents and restricted cash for the three months ended March 31, 2021 and 2020.

Cash flows in thousands	**Three Months Ended March 31,**		**Better/(Worse)** **2021 vs. 2020**	
	2021	2020	$	%
Net cash used in operating activities	$ (1,589)	$ (25,401)	$ 23,812	94 %
Net cash used in investing activities	(6,530)	(19,319)	12,789	66
Net cash (used in) provided by financing activities	(579)	54,159	(54,738)	n/m
Net (decrease) increase in cash, cash equivalents and restricted cash	$ (8,698)	$ 9,439	$ (18,137)	n/m
n/m - Not Meaningful				

Net cash used in operating activities

The decrease in cash used in operating activities was primarily driven by the improvement in the net operating income (loss) for the three months ended March 31, 2021 as compared to the corresponding period of fiscal 2020. Excluding non-cash items such as impairments, write-offs and depreciation and amortization in the net operating income (loss), this improved operating income was a result of revenue increases exceeding increases in costs of goods sold and a decrease in compensation, marketing and general and administrative expenses. Additionally, improvements in working capital help to drive the decrease in cash used in operating activities.

Net cash used in investing activities

Cash used in investing activities during the three months ended March 31, 2021, was primarily driven by $5,421 spent on capital expenditures to build out the Company's owned operations and $1,143 advanced to entities, net of collections, with which the Company has a management or consulting services arrangement.

Cash used in investing activities during the three months ended March 31, 2020, was primarily driven by $7,790 spent on capital expenditures to build out the Company's owned operations and $11,560 advanced to entities, net of collections, with which the Company has a management or consulting services arrangement.

Net cash (used in) provided by financing activities

Cash used in financing activities during the three months ended March 31, 2021 was primarily driven by the repayment of debt of $2,070, partially offset by $1,190 related to financing proceeds.

Cash provided by financing activities during the three months ended March 31, 2020 was primarily driven by proceeds from raising $27,887 through the issuance of warrants, $19,438 related to a draw down associated with a credit facility, as well as $22,000 related to the collateral received pursuant to the draw down. This was partially offset by the repayment of short-term related party debt of $15,000.

Capital Resources

Capital structure and debt

The Company’s debt outstanding as of March 31, 2021 was as follows:

Debt balances		March 31, 2021
Seller’s notes		2,581
Financing liability (related party)		15,253
Finance lease liabilities		5,190
3.55% Credit facility due 2021		20,215
3.55% Credit facility collateral (related party)		20,845
7.5% Loan due 2023 (related party)		32,203
6.1% Secured debenture due 2030 (related party)		46,185
Hempco Foros promissory note		2,000
Senior secured term loan facility		23,200
Construction financing loan		6,090
Canwell promissory note		6,750
Total debt	**$**	**180,512**
Less: current portion of debt		47,642
Total long-term debt	**$**	**132,870**

Commitments and contingencies

Refer to Note 13 of the unaudited condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Market risk

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

Credit risk

The Company’s exposure to non-payment or non-performance by its counterparties is a credit risk. The maximum credit exposure as of March 31, 2021, 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 March 31, 2021, 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.