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 June 30, 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, its strategic objectives, as well as developments that occurred during the three and six months ended June 30, 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 and six months ended June 30, 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 six months ended June 30, 2021 and 2020, as well as a discussion on the Company's outstanding debt and commitments that existed as of June 30, 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.

As of June 30, 2021, Acreage owned and operated a total of 22 dispensaries - 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), and three in Maine (Gardiner, Portland and South Portland). As of June 30, 2021, Acreage owned and operated a total of 6 cultivation and processing facilities in Oakland, California, Sinking Spring, Pennsylvania, Sterling, Massachusetts, Syracuse, New York, Freeport, Illinois, and Egg Harbor, New Jersey. Acreage also collected management services revenues, substantially all in Maine and New Hampshire.

<u>Strategic Priorities</u>

The Company believes its refocused strategy is the key to continued improvements in its financial results and shareholder value. The Company remains focused on three key strategic objectives - driving profitability, strengthening the balance sheet, and accelerating growth in its core markets.

Driving Profitability: The Company's focus on improving operational and financial results has resulted in generally improving profitability. Management continues to diligently control costs, improve operational efficiencies, and accelerate organic growth in its core markets to continue to report improved profitability going forward.

Strengthening the Balance Sheet: Strengthening the balance sheet is key to both providing the Company with the necessary capital to achieve its operational plans and building shareholder confidence. The Company has worked to ensure that sufficient capital has been available when needed. Going forward, the Company will monitor the capital markets and utilize opportunities to access both debt or equity when it is necessary and advantageous to do so.

Accelerating Growth in Core Markets: Through prior acquisitions and capital expenditures, management believes Acreage is well positioned for future success in several key markets as regulations regarding the use of cannabis continue to evolve. The Company will continue to focus its growth on its core markets where it can take advantage of and expand on the presence already established.

Highlights from the three months ended June 30, 2021:

- The Company achieved total consolidated revenue growth of 63% as compared with the three months ended June 30, 2020. On a sequential basis, the Company achieved total consolidated revenue growth of 15% compared with the three months ended March 31, 2021.
- Adjusted EBITDA for the three months ended June 30, 2021 was $8.1 million compared to an adjusted EBITDA loss of $6.5 million in the same period in 2020. This marks the second consecutive quarter of positive adjusted EBITDA for the company and validates management's refocused strategic plan.
- The Company completed the acquisition of 100% of CWG Botanicals, Inc. (“CWG”), an adult-use cannabis cultivation and processing operations in the state of California.
- The Company completed the sale of its operations in Florida for aggregate proceeds of $60.0 million, which is consistent with its overall strategy to focus on its core states. Additionally, the Company agreed to sell its dispensary in Powell, Oregon and its cultivation and processing facility in Medford, Oregon.
- The Company utilized the proceeds from the sale of Acreage Florida and its restricted cash to strengthen its balance sheet. During the three months ended June 30, 2021, the Company reduced its external debt by $44.1 million.

Additional highlights from the six months ended June 30, 2021:

- The Company achieved total consolidated revenue growth of 61% as compared with the six months ended June 30, 2020.
- Adjusted EBITDA for the six months ended June 30, 2021 was $9.7 million compared to an adjusted EBITDA loss of $18.6 million in the same period in 2020.
- The Company opened its third New Jersey based The Botanist dispensary in Williamstown, New Jersey.

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 and six months ended June 30, 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 June 30,**		**Better/(Worse) 2021 vs. 2020**		**Six Months Ended June 30,**		**Better/(Worse) 2021 vs. 2020**	
	2021	2020	$	%	2021	2020	$	%
Revenues, net	$ 44,217	$ 27,072	$ 17,145	63 %	$ 82,610	$ 51,297	$ 31,313	61 %
Operating income (loss)	(6,757)	(39,335)	32,578	83 %	(4,950)	(290,617)	285,667	98 %
Net loss attributable to Acreage	(2,553)	(37,192)	34,639	93 %	(10,361)	(209,146)	198,785	95 %
Basic and diluted loss per share attributable to Acreage	$ (0.02)	$ (0.38)	$ 0.36	95 %	$ (0.10)	$ (2.19)	$ 2.09	95 %

Revenues, 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.

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.

in thousands	**Three Months Ended June 30,**		**Better/(Worse) 2021 vs. 2020**		**Six Months Ended June 30,**		**Better/(Worse) 2021 vs. 2020**	
	2021	2020	$	%	2021	2020	$	%
Retail revenue, net	$ 28,396	$ 19,875	$ 8,521	43 %	$ 54,243	$ 37,448	$ 16,795	45 %
Wholesale revenue, net	15,541	7,167	8,374	117 %	25,557	13,715	11,842	86 %
Other revenue, net	280	30	250	833 %	2,810	134	2,676	n/m
Total revenues, net	$ 44,217	$ 27,072	$ 17,145	63 %	$ 82,610	$ 51,297	$ 31,313	61 %
Cost of goods sold, retail	(14,051)	(11,981)	(2,070)	(17)%	(27,133)	(22,870)	(4,263)	(19)%
Cost of goods sold, wholesale	(6,291)	(3,880)	(2,411)	(62)%	(10,980)	(7,262)	(3,718)	(51)%
Total cost of goods sold	$(20,342)	$(15,861)	$ (4,481)	(28)%	$(38,113)	$(30,132)	$ (7,981)	(26)%
Gross profit	$ 23,875	$ 11,211	$ 12,664	113 %	$ 44,497	$ 21,165	$ 23,332	110 %
Gross margin	54 %	41 %		13 %	54 %	41 %		13 %

Total revenues increased by $17,145 or 63% for the three months ended June 30, 2021, as compared to the corresponding period of fiscal 2020. On a comparative basis, total revenue increased by $7,351 due to the acquisitions of (i) CCF in June 2020, (ii) certain Maine operations and (iii) CWG in April 2021 and was offset by decreases of $268 due to the divestitures/closures of (i) Maryland Medicinal Research & Caring, LLC and Acreage North Dakota, LLC in May 2020, (ii) Form Factory in March 2020 and iii) Acreage Florida in April 2021. Additionally, revenue for the three months ended June 30, 2021 for the Company's operations in Oregon, which are considered non core and are being held for sale, decreased by $778 as compared to the corresponding period in fiscal 2020. Excluding these acquisitions and divestitures/closures and the impact of revenue declines in the Company's Oregon operations, total revenue increased by $10,571 or 44% for the three months ended June 30, 2021, as compared to the corresponding period of fiscal 2020.

Retail revenue increased by $8,521 or 43% for the three months ended June 30, 2021, as compared to the corresponding period of fiscal 2020. Excluding the impact of acquisitions and divestitures/closures, retail revenue increased by $2,359 for the three months ended June 30, 2021, as compared to the corresponding period of fiscal 2020. The remaining increase in retail revenue was primarily driven by increased demand and production across various states, and new store openings and was partially offset by retail revenue declines of $703 in non core states (Oregon).

Wholesale revenue increased by 117% for the three months ended June 30, 2021, as compared to the corresponding periods of fiscal 2020. The increased wholesale revenue was 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. Additionally, wholesale revenue for the three months ended June 30, 2021 included $1,145 from CWG which was acquired in April 2021.

On a year-to-date basis, total revenues for the six months ended June 30, 2021, increased by $31,313 or 61% as compared to the corresponding period of fiscal 2020. On a comparative basis, total revenues increased by $11,786 due to the acquisitions of (i) CCF in June 2020, (ii) certain Maine operations and (iii) CWG in May 2021 and was offset by decreases of $905 due to the divestitures/closures of (i) Maryland Medicinal Research & Caring, LLC and Acreage North Dakota, LLC in May 2020, (ii) Form Factory in March 2020 and (iii) Acreage Florida in April 2021. Additionally, total revenues for the six months ended June 30, 2021 for the Company's operations in Oregon, which are considered non core and are being held for sale, decreased by $1,540 as compared to the corresponding period in fiscal 2020. Excluding these acquisitions and divestitures/closures and the impact of total revenue declines in the Company's Oregon operations,, total revenue increased by $21,065 or 47% for the six months ended June 30, 2021, as compared to the corresponding period of fiscal 2020. Finally, total revenue for the six months ended June 30, 2021 included $2,500 of management fees in New Hampshire, a portion of which related to prior fiscal periods.

While total revenues increased 63%, total costs of goods sold only increased 28% for the three months ended June 30, 2021, as compared with the corresponding period of fiscal 2020.

Retail cost of goods sold increased 17% for the three months ended June 30, 2021, as compared to the corresponding period of fiscal 2020, and below the 43% increase in retail revenue. The lower rate of growth for retail cost of goods sold was due to the increased vertical integration of the Company's operations. A greater portion of the product sold at the Company's retail dispensaries is sourced internally from the Company's cultivation and processing operations. Cost of goods sold for this internally produced product does not contain the wholesale margin that would be paid if the Company had to source that same product from external vendors.

Wholesale cost of goods sold increased 62% for the three months ended June 30, 2021, as compared to the corresponding period of fiscal 2020, and below the 117% 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.

On a year-to-date basis, while total revenues increased 61%, total costs of goods sold only increased 26% for the six months ended June 30, 2021, as compared with the corresponding period of fiscal 2020. The reasons for the increases in costs of goods sold and for the lower rate of growth of costs of goods sold compared to the revenue growth, for the six months ended June 30, 2021, are consistent with the reasons for the three months ended June 30, 2021.

Gross margin for the three months ended June 30, 2021 was 54.0%, compared to 41.4% for the three months ended June 30, 2020. Gross margin for the six months ended June 30, 2021 was 53.9%, compared to 41.3% for the six months ended June 30, 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 June 30,**		**Better/(Worse) 2021 vs. 2020**		**Six Months Ended June 30,**		**Better/(Worse) 2021 vs. 2020**	
	2021	2020	$	%	2021	2020	$	%
New England	$ 18,122	$ 12,600	$ 5,522	44 %	$ 36,177	$ 23,923	$ 12,254	51 %
Mid-Atlantic	16,644	7,319	9,325	127 %	28,780	14,405	14,375	100 %
Midwest	6,449	4,286	2,163	50 %	12,321	7,229	5,092	70 %
West	2,852	2,578	274	11 %	4,711	5,381	(670)	(12)%
South	150	289	(139)	(48)%	621	359	262	73
Total revenues, net	$ 44,217	$ 27,072	$ 17,145	63 %	$ 82,610	$ 51,297	$ 31,313	61 %

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 in thousands	**Three Months Ended June 30,**		**Better/(Worse) 2021 vs. 2020**		**Six Months Ended June 30,**		**Better/(Worse) 2021 vs. 2020**	
	2021	2020	$	%	2021	2020	$	%
General and administrative	$ 5,385	$ 12,386	$ 7,001	57 %	$ 14,602	$ 25,418	$ 10,816	43 %
Compensation expense	11,174	7,957	(3,217)	(40)%	21,537	22,434	897	4 %
Equity-based compensation expense	6,981	20,187	13,206	65 %	13,023	54,924	41,901	76 %
Marketing	397	481	84	17 %	409	1,468	1,059	72 %
Impairments, net	—	—	—	n/m	818	187,775	186,957	100
Loss on notes receivable	1,726	—	(1,726)	n/m	1,726	8,161	6,435	79
Write down (recovery) of assets held-for-sale	—	8,110	8,110	n/m	(8,616)	8,110	16,726	n/m
Legal settlements, net	312	—	(312)	n/m	322	—	(322)	n/m
Depreciation and amortization	4,657	1,425	(3,232)	(227)%	5,626	3,492	(2,134)	(61)%
Total operating expenses	$ 30,632	$ 50,546	$ 19,914	39 %	$ 49,447	$ 311,782	$ 262,335	84 %

n/m - Not Meaningful

Total operating expenses for the three months ended June 30, 2021 were $30,632, a decrease of $19,914 or 39% 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 June 30, 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 increased during the three months ended June 30, 2021, as compared to the corresponding period of fiscal 2020, primarily due additional staff required to manage the Company's expanded operations, including the acquisitions of CCF in June 2020, certain Maine operations since the comparable period and CWG in May 2021. Additionally, compensation expense in the comparable period of 2020 was reduced as a result of reorganization efforts, including a suspension of operations at Form Factory and temporary staff reductions undertaken in response to the COVID-19 pandemic.
- Equity-based compensation expense decreased during the three months ended June 30, 2021, as compared to the corresponding period of fiscal 2020, primarily due to benefits associated with the reorganization efforts undertaken in the previous period, resulting in the acceleration of restricted share vesting for certain employees and previously issued awards becoming fully vested and cancelled in the prior periods.

- The loss on notes receivable for the three months ended June 30, 2021 is due to the determination that the payment for certain notes receivables was doubtful based on the most recent information available to the Company.

- During the three months ended June 30, 2020, the Company determined certain businesses and assets met the held-for-sale criteria. In accordance with ASC 360-10, *Property, Plant and Equipment*, the assessed disposal groups for such assets held-for-sale were written down to fair value less costs to sell, resulting in the recognition of write down charges. No such write-down was required for the three months ended June 30, 2021.

- Depreciation and amortization expenses increased during the three months ended June 30, 2021, compared to the corresponding period of fiscal 2020, primarily due to an acceleration of the amortization of certain intangible assets as a result of a reduction in the expected useful lives of such assets.

Total operating expenses for the six months ended June 30, 2021 were $49,447, a decrease of $262,335 or 84% 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 six months ended June 30, 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 for the six months ended June 30, 2021, as compared to the corresponding period of fiscal 2020, was generally consistent. Staff increases due to additional staff required to manage the Company's expanded operations were offset by reorganization efforts undertaken in previous periods.

- Equity-based compensation expense decreased during the six months ended June 30, 2021, as compared to the corresponding period of fiscal 2020, primarily due to benefits associated with the reorganization efforts undertaken in the previous period, resulting in the acceleration of restricted share vesting for certain employees and previously issued awards becoming fully vested and cancelled in the prior periods.

- Impairment expenses, net for the corresponding six months ended June 30, 2020 included impairment charges related to 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 six months ended June 30, 2021.

- The loss on notes receivable for the six months ended June 30, 2021 is due to the determination that the payment for certain notes receivables was doubtful based on the most recent information available to the Company. The loss on notes receivable for the comparable period in 2020 was due to the write-off of a notes receivable that the Company determined was no longer collectible.

- During the six months ended June 30, 2020, the Company determined certain businesses and assets met the held-for-sale criteria. In accordance with ASC 360-10, *Property, Plant and Equipment*, the assessed disposal groups for such assets held-for-sale were written down to fair value less costs to sell, resulting in the recognition of write down charges. No such write-down was required for the six months ended June 30, 2021. During the six months ended June 30, 2021, the Company determined that the fair value less costs to sell of its Acreage Florida disposal group increased in excess of its value previously written down value. Accordingly, the Company recognized a recovery of assets held-for-sale related to its Acreage Florida disposal group related to the previously recognized write-downs. Refer to Notes 3 and 17 in the unaudited condensed consolidated financial statements for further discussion.

- Depreciation and amortization expenses increased during the six months ended June 30, 2021, compared to the corresponding period of fiscal 2020, primarily due to an acceleration of the amortization of certain intangible assets as a result of a reduction in the expected useful lives of such assets.

Total other (loss) income

Other (loss) income in thousands	Three Months Ended June 30,		Better/(Worse) 2021 vs. 2020		Six Months Ended June 30,		Better/(Worse) 2021 vs. 2020	
	2021	2020	$	%	2021	2020	$	%
(Loss) income from investments, net	$ (1,122)	$ 4	$ (1,126)	n/m	$ (1,266)	$ 238	$ (1,504)	n/m
Interest income from loans receivable	1,593	1,830	(237)	(13)%	3,058	3,477	(419)	(12)%
Interest expense	(5,595)	(3,733)	(1,862)	(50)%	(10,452)	(4,959)	(5,493)	(111)
Other income (loss), net	9,311	(23)	9,334	n/m	7,745	(197)	7,942	n/m
Total other income (loss)	$ 4,187	$ (1,922)	$ 6,109	n/m	$ (915)	$ (1,441)	$ 526	37
n/m - Not Meaningful								

Total other income (loss) for the three months ended June 30, 2021 was $4,187, an increase of $6,109 from the corresponding period of fiscal 2020. The primary drivers of the increase in other income (loss) were as follows:

- Loss from investments, net of $1,122 for the three months ended June 30, 2021 was primarily due to declines in the fair market value of investments in equity of entities where the Company does not have significant influence or control.
- Interest income from loans receivable for the three months ended June 30, 2021 has declined from the corresponding period of fiscal 2020 due to a reduction in the value of loans receivable outstanding.
- Interest expense, net increased during the three months ended June 30, 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 June 30, 2020.
- Other income (loss), net for the three months ended June 30, 2021 was primarily related to a gain on the sale of Acreage Florida of $11,682 and partially offset by the loss on the subsequent sale of notes receivable received as consideration from the buyer of Acreage Florida of approximately $2,000.

Total other income (loss) for the six months ended June 30, 2021 was $(915), an decrease of $526 from the other income (loss) recognized in the corresponding period of fiscal 2020. The primary drivers of the decrease in other income (loss) for the six months ended June 30, 2021 were generally the same as the drivers of change in other income (loss) for the three months ended June 30, 2021 except for the following:

- Other income (loss), net for the six months ended June 30, 2021 also included a loss of $1,644 on the disposal of capital assets.

Net loss

Net loss in thousands	Three Months Ended June 30,		Better/(Worse) 2021 vs. 2020		Six Months Ended June 30,		Better/(Worse) 2021 vs. 2020	
	2021	2020	$	%	2021	2020	$	%
Net loss	$ (3,306)	$ (44,370)	$ 41,064	93 %	$ (11,947)	$ (266,599)	$ 254,652	96 %
Less: net loss attributable to non-controlling interests	(753)	(7,178)	6,425	90 %	(1,586)	(57,453)	55,867	97 %
Net loss attributable to Acreage Holdings, Inc.	$ (2,553)	$ (37,192)	$ 34,639	93 %	$ (10,361)	$ (209,146)	$ 198,785	95 %

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

Adjusted EBITDA

The Company defines Adjusted EBITDA as net income before interest, income taxes and, depreciation and amortization and excluding the following: (i) income from investments, net (the majority of the Company's investment income relates to remeasurement to fair value of previously-held interests in connection with our roll-up of affiliates, and the Company expects income from investments to be a non-recurring item as its legacy investment holdings diminish), (ii) equity-based compensation expense, (iii) non-cash impairment losses, (iv) transaction costs and (v) other non-recurring expenses (other expenses and income not expected to recur).

Adjusted EBITDA is a financial measure that is not calculated in accordance with U.S. GAAP. The Company uses Adjusted EBITDA to evaluate its actual operating performance and for planning and forecasting future periods. The Company believes that the adjusted results presented provide relevant and useful information for investors because they clarify the Company's actual operating performance, make it easier to compare our results with those of other companies and allow investors to review performance in the same way as our management. Since these measures are not calculated in accordance with U.S. GAAP, they should not be considered in isolation of, or as a substitute for, net loss or our other reported results of operations as reported under U.S. GAAP as indicators of our performance, and they may not be comparable to similarly named measures from other companies.

Adjusted EBITDA			**Better/(Worse)**				**Better/(Worse)**	
in thousands	**Three Months Ended June 30,**		**2021 vs. 2020**		**Six Months Ended June 30,**		**2021 vs. 2020**	
	2021	2020	$	%	2021	2020	$	%
Net loss (U.S. GAAP)	**$ (3,306)**	**$ (44,370)**			**$ (11,946)**	**$ (266,599)**		
Income tax expense (benefit)	736	3,113			6,082	(25,459)		
Interest (income) expense, net	4,002	1,903			7,394	1,482		
Depreciation and amortization	5,273	1,581			6,794	3,976		
EBITDA (non-GAAP)	**$ 6,705**	**$ (37,773)**	**$ 44,478**	**n/m**	**$ 8,324**	**$ (286,600)**	**$294,923**	**n/m**
Adjusting items:								
(Income) loss from investments, net	1,122	(4)			1,266	(238)		
Impairments, net	—	—			818	187,775		
Loss on notes receivable	1,726	—			1,726	8,161		
Write down (recovery) of assets held-for-sale	—	8,110			(8,616)	8,110		
Equity-based compensation expense	6,981	20,187			13,023	54,924		
Legal settlements, net	312	—			322	—		
Gain on business divestiture	(11,682)	—			(11,682)	—		
Other non-recurring expenses	2,922	2,940			4,501	9,250		
Adjusted EBITDA (non-GAAP)	**$ 8,086**	**$ (6,540)**	**$ 14,626**	**n/m**	**$ 9,682**	**$ (18,618)**	**$ 28,299**	**n/m**
n/m - Not Meaningful								

The increases in adjusted EBITDA 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 June 30, 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.

In June 2021, the Company repaid the 3.55% credit facility of $21,000 and the 3.55% credit facility collateral (related party) of $22,000. Certain of the cash proceeds from the sale of Acreage Florida, including the proceeds from the sale of the notes receivable received from the buyer of Acreage Florida as consideration, and the Company's restricted cash were utilized to repay these debt obligations.

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 refer to 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 $37,834 as of June 30, 2021, an increase of $1,760 from June 30, 2020. The following table summarizes the change in cash, cash equivalents and restricted cash for the six months ended June 30, 2021 and 2020.

Cash flows			**Better/(Worse)**	
in thousands	**Six Months Ended June 30,**		**2021 vs. 2020**	
	2021	2020	$	%
Net cash used in operating activities	$ (21,038)	$ (39,318)	$ 18,280	46 %
Net cash provided by (used in) investing activities	44,738	(28,638)	73,376	n/m
Net cash (used in) provided by financing activities	(40,505)	77,430	(117,935)	n/m
Net (decrease) increase in cash, cash equivalents and restricted cash	$ (16,805)	$ 9,474	$ (26,279)	n/m
n/m - Not Meaningful				

Net cash used in operating activities

For the six months ended June 30, 2021, the Company used $21,038 of net cash in operating activities. This represented a reduction of $18,280 when compared to the corresponding period of fiscal 2020. Excluding non-cash items such as impairments, equity based compensation, write-offs, gains and losses on disposals 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 non-cash expenditures. Additionally, for both the six months ended June 30, 2021 and June 30, 2020, cash used in operating activity included cash used to fund increases in working capital due to the expanded operations.

Net cash (used in) provided by investing activities

For the six months ended June 30, 2021, the Company provided $44,738 of net cash through investing activities. This represented an improvement of $73,376 when compared to the corresponding period of fiscal 2020. Cash provided by investing activities for the six months ended June 30, 2021, was primarily driven by $15,829 spent on capital expenditures to build out the Company's owned operations but this was more than offset by (i) $8,825 collected from entities, net of advances, and (ii) $50,408 net proceeds from the sale of assets..

Cash used in investing activities during the six months ended June 30, 2020, was primarily driven by (i) $7,880 spent on capital expenditures to build out the Company's owned operations, (ii) $12,900 advanced to entities, net of collections, and (iii) $9,983 on business acquisitions.

Net cash (used in) provided by financing activities

For the six months ended June 30, 2021, the Company used $40,505 of net cash in financing activities. This represented a decrease of $115,928 when compared to the corresponding period of fiscal 2020. Cash used in financing activities during the six months ended June 30, 2021 was primarily driven by the repayment of debt of $44,070, partially offset by $4,540 related to financing proceeds.

Cash provided by financing activities during the six months ended June 30, 2020 was primarily driven by (i) $51,000 raised through debt financing, (ii) $27,887 through equity transactions, (iii) $22,000 collateral received from prior financing arrangements and (iv) offset by $20,276 repayment of debt.

Capital Resources

Capital structure and debt

The Company's debt outstanding as of June 30, 2021 was as follows:

Debt balances		**June 30, 2021**
Seller's notes	$	2,581
Financing liability (related party)		15,253
Finance lease liabilities		5,208
7.5% Loan due 2023 (related party)		32,282
6.1% Secured debenture due 2030 (related party)		45,822
Hempco Foros promissory note		2,000
Senior secured term loan facility		23,113
Construction financing loan		9,482
Canwell promissory note		6,750
Total debt	**$**	**142,491**
Less: current portion of debt		7,373
Total long-term debt	**$**	**135,118**

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