Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Acreage Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Acreage Holdings, Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2019.

New York, NY
March 11, 2022

ACREAGE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)	December 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	$ 43,180	$ 32,542
Restricted cash	1,098	22,097
Accounts receivable, net	8,202	2,309
Inventory	41,804	23,715
Notes receivable, current	7,104	2,032
Assets held-for-sale	8,952	62,971
Other current assets	2,639	2,354
Total current assets	112,979	148,020
Long-term investments	35,226	34,126
Notes receivable, non-current	27,563	97,901
Capital assets, net	126,797	89,136
Operating lease right-of-use assets	24,598	17,247
Intangible assets, net	119,695	138,983
Goodwill	43,310	31,922
Other non-current assets	1,383	4,718
Total non-current assets	378,572	414,033
TOTAL ASSETS	$ 491,551	$ 562,053
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	$ 23,861	$ 18,913
Taxes payable	24,572	14,780
Interest payable	1,432	3,504
Operating lease liability, current	2,145	1,492
Debt, current	1,583	27,139
Non-refundable deposits on sale	1,000	750
Liabilities related to assets held for sale	1,867	18,154
Other current liabilities	10,333	13,010
Total current liabilities	66,793	97,742
Debt, non-current	169,151	153,318
Operating lease liability, non-current	24,255	16,609
Deferred tax liability	27,082	34,673
Other liabilities	—	2
Total non-current liabilities	220,488	204,602
TOTAL LIABILITIES	287,281	302,344
Commitments and contingencies		
Common stock, no par value - unlimited authorized, 106,903 and 101,250 issued and outstanding, respectively	—	—
Additional paid-in capital	756,536	737,290
Treasury stock, 842 common stock held in treasury	(21,054)	(21,054)
Accumulated deficit	(538,215)	(475,205)
Total Acreage Shareholders' equity	197,267	241,031
Non-controlling interests	7,003	18,678
TOTAL EQUITY	204,270	259,709
TOTAL LIABILITIES AND EQUITY	$ 491,551	$ 562,053

See accompanying notes to Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
(in thousands, except per share amounts)	2021	2020	2019
Retail revenue, net	$ 127,306	$ 86,380	$ 54,401
Wholesale revenue, net	58,183	27,971	18,539
Other revenue, net	3,370	194	1,169
Total revenues, net	188,859	114,545	74,109
Cost of goods sold, retail	(65,776)	(51,018)	(33,844)
Cost of goods sold, wholesale	(27,201)	(14,369)	(9,821)
Total cost of goods sold	(92,977)	(65,387)	(43,665)
Gross profit	95,882	49,158	30,444
OPERATING EXPENSES			
General and administrative	32,026	50,469	56,224
Compensation expense	45,769	41,704	42,061
Equity-based compensation expense	19,946	92,064	97,538
Marketing	1,643	1,820	5,009
Impairments, net	32,828	188,023	13,463
Loss on notes receivable	7,869	8,161	—
(Recovery) write down of assets held-for-sale	(8,616)	11,003	—
Loss on legal settlements	372	14,555	—
Depreciation and amortization	11,116	6,170	7,593
Total operating expenses	142,953	413,969	221,888
Net operating loss	$ (47,071)	$ (364,811)	$ (191,444)
Income (loss) from investments, net	(3,549)	98	(480)
Interest income from loans receivable	4,824	6,695	3,978
Interest expense	(19,964)	(15,853)	(1,194)
Other income (loss), net	10,408	(3,487)	(1,033)
Total other (loss) income	(8,281)	(12,547)	1,271
Loss before income taxes	$ (55,352)	$ (377,358)	$ (190,173)
Income tax benefit (expense)	(17,805)	17,240	(4,989)
Net loss	$ (73,157)	$ (360,118)	$ (195,162)
Less: net loss attributable to non-controlling interests	(10,147)	(73,530)	(44,894)
Net loss attributable to Acreage Holdings, Inc.	$ (63,010)	$ (286,588)	$ (150,268)
Net loss per share attributable to Acreage Holdings, Inc. - basic and diluted:	$ (0.60)	$ (2.92) [1]	$ (1.74)
Weighted average shares outstanding - basic and diluted	105,087	97,981 [1]	86,185

[1] Presentation of December 31, 2020 figures have been revised, refer to Note 2 for further discussion.

See accompanying notes to Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)	LLC Membership Units	Pubco Shares (as converted)	Attributable to shareholders of the parent Share Capital	Treasury Stock	Accumulated Deficit	Shareholders' Equity	Non-controlling Interests	Total Equity
December 31, 2018	**—**	**79,164**	**$ 414,757**	**$ (21,054)**	**$ (38,349)**	**$ 355,354**	**$ 130,922**	**$ 486,276**
Issuances for business acquisitions/purchases of intangible assets	—	5,364	104,748	—	—	104,748	4,356	109,104
NCI adjustments for changes in ownership	—	2,784	(2,766)	—	—	(2,766)	2,766	—
Capital distributions, net	—	—	—	—	—	—	(4,363)	(4,363)
Other equity transactions	—	589	11,707	—	—	11,707	—	11,707
Equity-based compensation expense and related issuances	—	2,745	87,232	—	—	87,232	—	87,232
Net loss	—	—	—	—	(150,268)	(150,268)	(44,894)	(195,162)
December 31, 2019	**—**	**90,646**	**$ 615,678**	**$ (21,054)**	**$ (188,617)**	**$ 406,007**	**$ 88,787**	**$ 494,794**
Issuances for private placement	—	6,085	27,887	—	—	27,887	—	27,887
Beneficial conversion feature on convertible note (See Note 10)	—	—	523	—	—	523	—	523
Issuances on conversion of debenture	—	327	550	—	—	550	—	550
Issuance of warrants	—	—	3,229	—	—	3,229	—	3,229
NCI adjustments for changes in ownership	3,861	583	(3,395)	—	—	(3,395)	3,395	—
Capital contributions, net	—	—	—	—	—	—	26	26
Other equity transactions	—	276	754	—	—	754	—	754
Equity-based compensation expense and related issuances	—	3,333	92,064	—	—	92,064	—	92,064
Net loss	—	—	—	—	(286,588)	(286,588)	(73,530)	(360,118)
December 31, 2020	**3,861**	**101,250**	**$ 737,290**	**$ (21,054)**	**$ (475,205)**	**$ 241,031**	**$ 18,678**	**$ 259,709**
Purchase of non-controlling interest in subsidiary	—		(272)	—	—	(272)	(14)	(286)
NCI adjustments for changes in ownership	—	1,066	(1,063)	—	—	(1,063)	1,063	—
Capital distributions, net	—	—	—	—	—	—	(2,577)	(2,577)
Other equity transactions	—	98	635	—	—	635	—	635
Equity-based compensation expense and related issuances	—	4,489	19,946	—	—	19,946	—	19,946
Net loss	—	—	—	—	(63,010)	(63,010)	(10,147)	(73,157)
December 31, 2021	**3,861**	**106,903**	**$ 756,536**	**$ (21,054)**	**$ (538,215)**	**$ 197,267**	**$ 7,003**	**$ 204,270**

See accompanying notes to Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(in thousands)	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (73,157)	$ (360,118)	$ (195,162)
Adjustments for:			
Depreciation and amortization	11,116	6,170	7,593
Depreciation and amortization included in COGS	3,146	—	—
Equity-settled expenses, including compensation	20,362	92,818	102,898
Gain on business divestiture	(11,814)	(217)	—
Loss on disposal of capital assets	2,284	2,461	363
Loss on impairment	32,828	188,023	13,463
Loss on notes receivable	7,869	8,161	—
Bad debt expense	589	195	—
Non-cash interest expense	3,351	7,023	67
Non-cash operating lease expense	354	122	1,684
Deferred tax (income) expense	(9,209)	(32,405)	(3,844)
Non-cash loss from investments, net	3,549	949	1,272
Other non-cash (income) expense, net	(4,700)	—	(2,394)
(Recovery) write-down of assets held-for-sale	(8,616)	11,003	—
Change, net of acquisitions in:			
Inventory	(16,033)	(2,531)	(6,941)
Other assets	(1,398)	4,011	(5,053)
Interest receivable	(2,005)	(2,284)	(4,002)
Accounts payable and accrued liabilities	(2,564)	(11,572)	17,217
Taxes payable	9,787	10,233	3,778
Interest payable	(2,072)	3,213	(250)
Other liabilities	(4,197)	7,067	(1,568)
Net cash used in operating activities	$ (40,530)	$ (67,678)	$ (70,879)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of capital assets	$ (33,049)	$ (15,477)	$ (47,085)
Investments in notes receivable	(3,328)	(14,809)	(39,145)
Collection of notes receivable	14,033	254	3,164
Cash paid for long-term investments	—	(35,067)	(4,158)
Proceeds from business divestiture	24,407	997	—
Proceeds from sale of capital assets	5	4,756	172
Business acquisitions, net of cash acquired	1,750	(9,983)	(21,205)
Purchases of intangible assets	—	—	(58,488)
Deferred acquisition costs and deposits	—	—	2,076
Distributions from investments	2,351	27	232
Insurance proceeds	7,000	—	—
Proceeds from sale of promissory notes	30,200	—	—
Proceeds from (purchase of) short-term investments	—	—	149,828
Net cash provided by (used in) investing activities	$ 43,369	$ (69,302)	$ (14,609)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from related party debt	$ —	$ 7,100	$ 15,000
Repayment of related party loan	—	(22,100)	—
Proceeds from financing (refer to Note 14 for related party financing)	81,407	160,587	19,052
Deferred financing costs paid	(3,371)	(7,864)	—
Proceeds from issuance of private placement units and warrants, net	26	31,117	—
Collateral received from financing agreement	—	22,000	—
Settlement of taxes withheld	—	—	(10,306)
Repayment of debt	(91,039)	(25,821)	(12,333)

See accompanying notes to Consolidated Financial Statements

Capital contributions (distributions) - non-controlling interests, net	—	—	(4,363)
Net cash provided by (used in) financing activities	$ (12,977)	$ 165,019	$ 7,050
Net increase (decrease) in cash, cash equivalents, restricted cash, and cash held for sale	$ (10,138)	$ 28,039	$ (78,438)
Cash, cash equivalents, restricted cash, and cash held for sale - Beginning of period	54,639	26,600	105,038
Cash, cash equivalents, restricted cash, and cash held for sale - End of period	$ 44,501	$ 54,639	$ 26,600
RECONCILIATION OF CASH FLOW INFORMATION:			
Cash and cash equivalents	$ 43,180	$ 32,542	$ 26,505
Restricted cash	$ 1,098	$ 22,097	$ 95
Cash held for sale	$ 223	$ —	$ —
Total cash, cash equivalents, restricted cash, and cash held for sale at end of period	$ 44,501	$ 54,639	$ 26,600

	Year Ended December 31,		
(in thousands)	2021	2020	2019
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid - non-lease	$ 16,521	$ 5,617	$ 685
Income taxes paid	16,381	3,027	4,555
OTHER NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Capital assets not yet paid for	$ 3,722	$ 2,479	$ 8,188
Exchange of intangible assets to notes receivable (Note 4)	—	18,800	—
Holdback of Maine HSCP notes receivable (Note 6)	—	917	—
Promissory note conversion (Note 6)	10,880	10,087	—
Non-cash consideration related to business acquisition (Note 3)	44,996	—	—
Non-cash proceeds from business divestiture	34,475	—	—
Deferred tax liability related to business acquisition (Note 3)	—	3,077	—
Beneficial conversion feature (Note 10)	—	523	—
Convertible note conversion	—	550	—
Unpaid debt issuance costs	—	3,000	—
Exchange of investments for land and building (Note 5)	—	4,464	—
Reclassification of assets held-for-sale to in-use	10,896	—	—
Issuance of SVS for operating lease	—	—	3,353

See accompanying notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS

Acreage Holdings, Inc. (the "Company", "Pubco" or "Acreage") is a vertically integrated, multi-state operator in the United States ("U.S.") cannabis industry and has contractual relationships with cannabis cultivation facilities, dispensaries and other cannabis-related companies in the U.S. The Company's operations include (i) cultivating and processing cannabis plants, (ii) manufacturing branded consumer products, (iii) distributing cannabis flower and manufactured products, and (iv) retailing dosable cannabis products to consumers. The Company's products appeal to medical and adult recreational use customers through brand strategies intended to build trust and loyalty. 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.

High Street Capital Partners, LLC, a Delaware limited liability company doing business as "Acreage Holdings" ("HSCP"), was formed on April 29, 2014. The Company became the indirect parent of HSCP on November 14, 2018 in connection with the reverse takeover ("RTO") transaction described below.

The Company's principal place of business is located at 450 Lexington Avenue, #3308, New York, New York in the U.S. The Company's registered and records office address is Suite 2800, Park Place, 666 Burrard Street, Vancouver, British Columbia in Canada.

<u>The RTO transaction</u>

On September 21, 2018, the Company, HSCP, HSCP Merger Corp. (a wholly-owned subsidiary of the Company), Acreage Finco B.C. Ltd. (a special purpose corporation) ("Finco"), Acreage Holdings America, Inc. ("USCo") and Acreage Holdings WC, Inc. ("USCo2") entered into a business combination agreement (the "Business Combination Agreement") whereby the parties thereto agreed to combine their respective businesses, which would result in the RTO of Pubco by the security holders of HSCP, which was deemed to be the accounting acquiror. On November 14, 2018, the parties to the Business Combination Agreement completed the RTO.

<u>Canopy Growth Corporation transaction</u>

On June 27, 2019, the Company and Canopy Growth Corporation ("Canopy Growth" or "CGC") implemented the Prior Plan of Arrangement (as defined in Note 13) contemplated by the Original Arrangement Agreement (as defined in Note 13). Pursuant to the Prior Plan of Arrangement, Canopy Growth was granted an option to acquire all of the issued and outstanding shares of the Company in exchange for the payment of 0.5818 of a common share in the capital of Canopy Growth for each Class A subordinate voting share (each, a "SVS") held (with the Class B proportionate voting shares (the "PVS") and Class C multiple voting shares (the "MVS") being automatically converted to SVS immediately prior to consummation of the Acquisition (as defined in Note 13), which original exchange ratio was subject to adjustment in accordance with the Original Arrangement Agreement. Canopy Growth was required to exercise the option upon a change in federal laws in the United States to permit the general cultivation, distribution and possession of marijuana (as defined in the relevant legislation) or to remove the regulation of such activities from the federal laws of the United States (the "Triggering Event") and, subject to the satisfaction or waiver of certain closing conditions set out in the Original Arrangement Agreement, Canopy Growth was required to acquire all of the issued and outstanding SVS (following the mandatory conversion of the PVS and MVS into SVS).

On June 24, 2020, Canopy Growth and the Company entered into an agreement to, among other things, amend the terms of the Original Arrangement Agreement and the terms of the Prior Plan of Arrangement (the "Amended Arrangement"). On September 16, 2020, the Company's shareholders voted in favor of a special resolution authorizing and approving the terms of, among other things, the Amended Arrangement. Subsequently, on September 18, 2020, the Company obtained a final order from the Supreme Court of British Columbia approving the Amended Arrangement, and on September 23, 2020 the Company and Canopy Growth entered into the Amending Agreement (as defined in Note 13) and implemented the Amended Arrangement. Pursuant to the Amended Arrangement, the Company's articles were amended to create the Fixed Shares, the Floating Shares and the Class F multiple voting shares (the "Fixed Multiple Shares"), and each outstanding SVS was exchanged for 0.7 of a Fixed Share and 0.3 of a Floating Share, each outstanding PVS was exchanged for 28 Fixed Shares and 12 Floating Shares; and each outstanding MVS was exchanged for 0.7 of a Fixed Multiple Share and 0.3 of a Floating Share. Refer to Note 13 for further discussion.

Pursuant to the implementation of the Amended Agreement, on September 23, 2020, a subsidiary of Canopy Growth advanced gross proceeds of $50,000 to Universal Hemp, LLC, an affiliate of the Company. The debenture bears interest at a rate of 6.1% per annum. Refer to Note 10 for further discussion.

COVID-19

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

In response to the outbreak, governmental authorities in the United States, Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place and social distancing. The COVID-19 outbreak and the response of governmental authorities to try to limit it are having a significant impact on the private sector and individuals, including unprecedented business, employment and economic disruptions. Management has been closely monitoring the impact of COVID-19, with a focus on the health and safety of the Company's employees, business continuity and supporting the communities where the Company operates. The company has implemented various measures to reduce the spread of the virus, including implementing social distancing measures at its 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.

Despite some impact to our day-to-day operations at select locations from time-to-time, COVID-19 has had a minimal impact overall on our company's performance.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and going concern

The accompanying consolidated financial statements have been prepared on a going concern basis which implies the Company will continue to meet its obligations for the next twelve months as of the date these financial statements are issued.

As reflected in the consolidated financial statements, the Company had an accumulated deficit as of December 31, 2021, as well as a net loss and negative cash flow from operating activities for the reporting year then ended. These factors raise substantial doubt about the Company's ability to continue as a going concern for at least one year from the issuance of these financial statements.

However, management believes that substantial doubt about the Company's ability to meet its obligations for the next twelve months from the date these financial statements were issued has been alleviated due to, but not limited to, (i) access to future capital commitments, (ii) continued sales growth from the Company's 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 AFC-VRT credit facilities (refer to Note 10 for further discussion), and (vi) the anticipated Non-Core Divestitures (refer to Note 3 for further discussion), as well as access to the U.S. public equity markets.

If the Company is unable to raise additional capital whenever necessary, it may be forced to decelerate or curtail its footprint build-out 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 the Company will be successful in accomplishing any of its plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur at any time within the next twelve months or thereafter which could increase the Company's need to raise additional capital on an immediate basis.

Use of estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Preparation of financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the dates presented and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates. Significant estimates inherent in the preparation of the accompanying consolidated financial statements include the fair value of assets acquired and liabilities assumed in business combinations, assumptions relating to equity-based compensation expense, estimated useful lives for property, plant and equipment and intangible assets, the valuation allowance against deferred tax assets and the assessment of potential charges on goodwill, intangible assets and investments in equity and notes receivable.

Emerging growth company

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

Functional and presentation currency

The consolidated financial statements and the accompanying notes are expressed in U.S. dollars. Financial metrics are presented in thousands. Other metrics, such as shares outstanding, are presented in thousands unless otherwise noted.

Basis of consolidation

The Company's consolidated financial statements include the accounts of Acreage, its subsidiaries and variable interest entities ("VIEs") where the Company is considered the primary beneficiary, if any, after elimination of intercompany accounts and transactions. Investments in business entities in which Acreage lacks control but is able to exercise significant influence over operating and financial policies are accounted for using the equity method. The Company's proportionate share of net income or loss of the entity is recorded in *Income (loss) from investments, net* in the Consolidated Statements of Operations.

VIEs

In determining whether the Company is the primary beneficiary of a VIE, the Company assess whether it has the power to direct matters that most significantly impact the activities of the VIE and have the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. There were no material consolidated VIEs as of December 31, 2021, 2020, or 2019.

Non-controlling interests ("NCI")

Non-controlling interests represent ownership interests in consolidated subsidiaries by parties that are not shareholders of Pubco. They are shown as a component of *Total equity* in the Consolidated Statements of Financial Position, and the share of loss attributable to non-controlling interests is shown as a component of *Net loss* in the Consolidated Statements of Operations. Changes in the parent company's ownership that do not result in a loss of control are accounted for as equity transactions.

Cash and cash equivalents

The Company defines cash equivalents as highly liquid investments held for the purpose of meeting short-term cash commitments that are readily convertible into known amounts of cash, with original maturities of three months or less. 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. Cash and cash equivalents belonging to entities the Company has classified as held-for-sale have been reclassified to *Assets held-for-sale* on the Consolidated Statements of Financial Position. Refer to Note 3 for further discussion.

Restricted cash

Restricted cash represents funds contractually held for specific purposes (refer to Note 10 for further discussion) and, as such, not available for general corporate purposes.

Cash and restricted cash, as presented on the Consolidated Statements of Cash Flows, consists of $43,180 and $1,098 as of December 31, 2021, respectively, and $32,542 and $22,097 as of December 31, 2020, respectively.

Accounts Receivable Valuations and Reclassifications

Accounts receivable are stated at their net realizable value. The allowance against gross trade receivables reflects the best estimate of probable losses inherent in the receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available information. As of December 31, 2021 and 2020, the Company's allowance for doubtful accounts was $445 and $7,220, respectively. Note that certain items presented on the December 31, 2020 Consolidated Statement of Financial Position include a change in presentation to conform to the current year presentation to incorporate an *Accounts receivable, net* financial statement line item. There was no impact to our Consolidated Financial Statements as a result of this reclassification.

Investments

The Company classifies its short-term investments in debt securities as held-to-maturity and accounts for them at amortized cost. Due to the short maturities, the carrying value approximates fair value. Refer to Note 5 for further discussion.

The Company accounts for long-term equity investments in which it is able to exercise significant influence, but does not have control over, using the equity method.

Investments not accounted for using the equity method are required to be carried at fair value, with changes recognized in net income ("FV-NI"). For investments without a readily determinable fair value, a measurement alternative is available allowing measurement at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Inventory

The Company's inventories include the direct costs of seeds and growing materials, indirect costs such as utilities, labor, depreciation and overhead costs, and subsequent costs to prepare the products for ultimate sale, which include direct costs such as materials and indirect costs such as utilities and labor. All direct and indirect costs related to inventory are capitalized when they are incurred, and they are subsequently classified to *Cost of goods sold* in the Consolidated Statements of Operations. Inventory is valued at the lower of cost and net realizable value, defined as estimated selling price in the ordinary cost of business, less costs of disposal. The Company measures inventory cost using specific identification for its retail inventory and the average cost method for its cultivation inventory. Cannabis inventory is classified as a current asset, even though part of such inventory may not be utilized within one year because of the duration of the cultivation, drying and conversion process.

Debt Issuance Costs

Debt issuance costs may be incurred by the Company in connection with obtaining new debt. These costs are recorded as a reduction to the outstanding principal balance of the related debt. They are amortized over the term of the related debt through a charge to interest expense. If a debt is settled or replaced prior to maturity with new debt instruments that have substantially different terms, it is treated as a debt extinguishment and the remaining unamortized costs are charged to extinguishment gain or loss. If a debt is settled or replaced prior to maturity with new debt instruments with the same lender that do not have substantially different terms, it is treated as a debt modification. The remaining unamortized issuance costs remain capitalized, any new issuance costs are capitalized, and the total of these are amortized over the term of the modified debt through a charge to interest expense.

Fair value of financial instruments

The Company accounts for assets and liabilities measured at fair value on a recurring basis in accordance with ASC 820 - *Fair Value Measurements.* ASC 820 utilizes a fair value hierarchy that reflects the significance of the inputs used to make the measurements. The hierarchy is summarized as follows:

- Level 1 - quoted prices (unadjusted) that are in active markets for identical assets or liabilities
- Level 2 - inputs that are observable for the asset or liability, either directly (prices) for similar assets or liabilities in active markets or indirectly (derived from prices) for identical assets or liabilities in markets with insufficient volume or infrequent transactions
- Level 3 - inputs for assets or liabilities that are not based upon observable market data

There were no material transfers in or out of Level 3 during the years ended December 31, 2021 and 2020 as the Company holds investments in certain equity securities utilizing net asset value per share as a practical expedient, which are not categorized within the fair value hierarchy. The Company did not have any liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020.

Notes receivable

The Company provides financing to various related and non-related businesses within the cannabis industry. These notes are classified as held-for-investment and are accounted for as financial instruments in accordance with ASC 310 - *Receivables*. The Company recognizes impairment on notes receivable when, based on all available information, it is probable that a loss has been incurred based on past events and conditions existing at the date of the financial statements. Losses are recorded in *Loss on notes receivable* on the Consolidated Statements of Operations.

Capital assets

Capital assets are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Land and construction-in-process are not depreciated. Depreciation is calculated using the straight-line method for all other asset classes. The estimated useful life of buildings range from 10 to 40 years, and the estimated useful life of furniture, fixtures and equipment range from 3 to 10 years. Leasehold improvements are amortized using the straight-line method over the shorter of their useful lives or the life of the lease. Repair and maintenance costs are expensed as incurred. When capital assets are disposed of, the related cost and accumulated depreciation are removed and a gain or loss is included in the Consolidated Statements of Operations.

With respect to individual long-lived assets, changes in circumstances may merit a change in the estimated useful lives or salvage values of the assets, which are accounted for prospectively in the period of change. For such assets, impairment is assessed, and useful lives may be shortened based on the Company’s plans to dispose of or abandon such assets before the end of its original useful life with depreciation accelerated upon determination.

Leases

On January 1, 2019, the Company early adopted ASU 2016-02 Leases (Topic 842) using the modified retrospective approach. The Company elected the package of practical expedients contained in the new standard which, among other provisions, allows companies to retain existing lease classification under Topic 840 at transition. The Company has also made an accounting policy election to not recognize right of use assets or lease liabilities for leases with an initial term of 12 months or less, and to continue recognizing the related expense in the Consolidated Statement of Operations on a straight-line basis over the lease term. Sale-leasebacks are assessed to determine whether a sale has occurred under ASC 606 - *Revenue from Contracts with Customers*. If a sale is determined not to have occurred, the underlying “sold” assets are not derecognized and a financing liability is established in the amount of cash received. At such time that the lease expires, the assets are then derecognized along with the financing liability, with a gain recognized on disposal for the difference between the two amounts, if any.

On the date of adoption, the Company recognized right of use assets and lease liabilities on its Consolidated Statements of Financial Position, which reflect the present value of the Company's current minimum lease payments over the lease terms, which include options that are reasonably certain to be exercised, discounted using the Company’s estimated incremental borrowing rate. Refer to Note 8 for further discussion.

Intangible assets

Intangible assets such as management contracts are amortized over their estimated useful lives, while indefinite-lived intangibles such as cannabis licenses are not amortized.

Convertible debt

The Company assesses its financial instruments for embedded features that may require bifurcation from their host. If the embedded features do not meet the criteria for bifurcation, the convertible instrument is accounted for as a single hybrid instrument. The Company retired its convertible debenture during the year ended December 31, 2020. Refer to Note 10 for further discussion.

Business combinations

The Company's growth strategy includes acquisition of retail, cultivation, processing and other cannabis related companies. These business combinations are accounted for using the acquisition method on the date that control is transferred. The consideration transferred in the acquisition is measured at fair value, along with identifiable net assets acquired. Fixed Shares and Floating Shares issued are valued based on the closing price on the Canadian Securities Exchange. Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets or liabilities of an acquired business and represents expected synergies associated with the acquisition such as the benefits of assembled workforces, expected earnings and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Based on the Company's tax status discussed below, goodwill is not expected to be deductible for income tax purposes. A bargain purchase gain is recognized when the excess of the purchase price over the fair value of the net identifiable assets or liabilities acquired is negative. The Company expenses transaction costs, other than those associated with the issue of debt or equity securities, in connection with a business combination as incurred. The Company measures non-controlling interests acquired, if any, at acquisition date fair value.

Impairment of long-lived assets

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

Finite-lived intangible assets and other long-lived assets are tested for recoverability based on undiscounted cash flows when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value is determined not to be recoverable, the present value of expected future cash flows is compared to the carrying value of the asset. An impairment is booked for the excess of carrying value over the discounted cash flows.

Income taxes

The Company is treated as a U.S corporation for U.S. federal income tax purposes under U.S. Internal Revenue Code ("IRC") Section 7874 and is subject to U.S. federal income tax. However, for Canadian tax purposes, the Company is expected, regardless of any application of IRC Section 7874, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada)) for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the U.S. Notwithstanding the foregoing, it is management's expectation that the Company's activities will be conducted in such a manner that income from operations will not be subjected to double taxation.

HSCP operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal, state and local income tax purposes. As a result, HSCP's income from its U.S. operations is not subject to U.S. federal income tax because the income is attributable to its members. Accordingly, the Company's U.S. tax provision is based on the portion of HSCP's income attributable to the Company and excludes the income attributable to other members of HSCP, whose income is included in *Net loss attributable to non-controlling interests* in the Consolidated Statements of Operations. In addition, the Company also records a tax provision for the corporate entities owned directly by HSCP.

Income tax expense is recognized in the Consolidated Statements of Operations. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities and the related deferred tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current assets against current tax liabilities and when they relate to income taxes levied by the same taxing authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Certain Acreage subsidiaries are subject to IRC Section 280E. This section disallows deductions and credits attributable to a trade or business of trafficking in controlled substances. Under U.S. law, cannabis is a Schedule I controlled substance.

Revenue recognition

The Company accounts for revenue in accordance with ASC 606, *Revenue from Contracts with Customers.* The Company's accounting policy for revenue recognition under Topic 606 is as follows:

1. Identify the contract with a customer;
2. Identify the performance obligation(s);
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s); and
5. Recognize revenue when/as performance obligation(s) are satisfied.

Substantially all of the Company's revenue comes from the direct sale of cannabis products to customers for a fixed price. Customer sales have one performance obligation and are recognized at a point-in-time when the Company transfers control of the good to the customer at the point-of-sale. The Company disaggregates its revenues from the direct sale of cannabis to customers on the Consolidated Statements of Operations as *Retail revenue, net* and *Wholesale revenue, net*.

Revenue from management contracts typically has one performance obligation and is recognized over-time as management services are provided. The Company provides management services to other cannabis companies for a fee structure that varies based on the contract. The Company generally determines standalone selling price based on the price charged to customers. The services that may be provided are broadly defined and span the entire scope of the business. The Company evaluates the nature of its promise to the customer in these contracts and determines that its promise is to provide a management service. The service comprises various activities that may vary each day (such as support for cultivation, finance, accounting, human resources, retail, etc.). The Company disaggregates its management contract revenue on the Consolidated Statements of Operations as *Other revenue, net*.

The Company's payments terms are consistent with industry standards and never exceed 12 months. Amounts disclosed as revenue are net of allowances, discounts and rebates.

Equity-settled payments

The Company issues equity-based awards to employees and non-employee directors for services. The Company measures these awards based on their fair value at the grant date and recognizes compensation expense over the requisite service period. The Company generally issues new shares to satisfy conversions, option and warrant exercises, and RSU vests. Forfeitures are accounted for as they occur.

Net loss per share

Net loss per share represents the net loss attributable to shareholders divided by the weighted average number of shares outstanding during the period on an as converted basis. Basic and diluted loss per share are the same as of December 31, 2021, 2020 and 2019, as the issuance of shares upon conversion, exercise or vesting of outstanding units would be anti-dilutive in each period. There were 40,107, 45,541, and 41,526 anti-dilutive shares outstanding as of December 31, 2021, 2020 and 2019, respectively.

During the year ended December 31, 2021, the Company identified an error in its mathematical calculation of weighted average shares outstanding due to the inclusion of certain membership units owned by a wholly owned subsidiary of the Company. In accordance with SEC Staff Accounting Bulletin ("SAB") No. 99, Materiality and SAB No. 108 ("SAB 108"), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, the Company assessed the materiality of this correction on its financial statements for the year ended December 31, 2020 and the three months ended June 30, 2020, September 30, 2020, December 31, 2020, March 31, 2021, June 30, 2021 and September 30, 2021. As a result of its analysis, the Company determined that this error had no impact on net loss attributable to Acreage Holdings, Inc., non-controlling interests, or accumulated deficit for each of the respective periods. The impact of the error was isolated to net loss per share and weighted average shares outstanding for each of the respective periods. Based on qualitative and quantitative factors, the Company concluded the error was not material to its financial statements for any prior period nor the current year and, as such, its consolidated financial statements are not materially misstated. The net losses per share attributable to Acreage Holdings - basic and diluted - as presented in Note 17 and the Consolidated Statements of Operations have been revised for the respective periods, as discussed below.

The effects of the revisions to net loss per share attributable to Acreage Holdings - basic and diluted - for the respective periods are as follows: (i) for the three months ended June 30, 2020 the Company revised the 98,444 weighted average shares outstanding and $(0.38) net loss per share reported to 98,232 and $(0.38), respectively; (ii) for the three months ended September 30, 2020 the Company revised the 103,450 weighted average shares outstanding and $(0.39) net loss per share reported to 99,589 and $(0.41), respectively; (iii) for the three months ended December 31, 2020 the Company revised the 104,955 weighted average shares outstanding and $(0.35) net loss per share reported to 101,094 and $(0.36), respectively; (iv) for the three months ended March 31, 2021 the Company revised the 106,204 weighted average shares outstanding and $(0.07) net loss per share reported to 102,343 and $(0.08), respectively; (v) for the three months ended June 30, 2021 the Company revised the 108,714 weighted average shares outstanding and $(0.02) net loss per share reported to 104,853 and $(0.02), respectively; (vi) for the three months ended September 30, 2021 the Company revised the 110,193 weighted average shares outstanding and $(0.11) net loss per share reported to 106,332 and $(0.12), respectively; (vii) for the year ended December 31, 2020 the Company revised the 99,980 weighted average shares outstanding and $(2.87) net loss per share reported to 97,981 and $(2.92), respectively.

Accounting Pronouncements Recently Adopted

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

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13 - *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13")*, which was subsequently revised by ASU 2018-19 and ASU 2020-02. The ASU introduces a new model for assessing impairment on most financial assets. Entities will be required to use a forward-looking expected loss model, which will replace the current incurred loss model, which will result in earlier recognition of allowance for losses. The ASU will be effective for the Company's first interim period of fiscal 2023. The Company continues to evaluate the impact of this ASU on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12 - *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12)*. ASU 2019-12 attempts to simplify aspects of accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The ASU will be effective for the Company's fiscal year ended 2022, and interim periods within fiscal year 2023. The Company does not expect the adoption of the standard to have a material impact on the Company's consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01 - *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. The new standard clarifies the interaction of accounting for the transition into and out of the equity method. The new standard also clarifies the accounting for measuring certain purchased options and forward contracts to acquire investments. The ASU will be effective for the Company's first interim period of fiscal 2022. The Company does not anticipate a material impact on the Company's Consolidated Financial Statements upon adoption.

In May 2021, the FASB issued ASU 2021-04 - *Earnings Per Share (Topic 260), Debt - Modifications and Extinguishments (Topic 470-50), Compensation - Stock Compensation (Topic 718), and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)*, which clarifies existing guidance for freestanding written call options which are equity classified and remain so after they are modified or exchanged in order to reduce diversity in practice. The standard applies prospectively to modifications or exchanges that occur after it is adopted. The standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not anticipate a material impact on the Company's Consolidated Financial Statements upon adoption.

In October 2021, the FASB issued ASU 2021-08 - *Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.* The new standard improves the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency. The new standard requires an entity to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606 - *Revenue from Contracts with Customers*. The ASU will be effective for the Company's first interim period of fiscal 2024. The standard should be applied prospectively to business combinations occurring on or after the effective date of the amendments. The Company does not anticipate a material impact on the Company's consolidated financial statements upon adoption.

(in thousands, except per share data)

3. ACQUISITIONS, DIVESTITURES AND ASSETS HELD FOR SALE

Acquisitions

During the year ended December 31, 2021, the Company completed the following business combinations and has allocated each purchase price as follows:

Purchase Price Allocation	CWG	Greenleaf	Total
Assets acquired:			
Cash and cash equivalents	$ 828	$ 1,209	$ 2,037
Inventory	1,200	2,692	3,892
Other current assets	347	1,520	1,867
Capital assets, net	3,312	22,923	26,235
Operating lease right-of-use asset	1,584	2,819	4,403
Goodwill	1,182	18,618	19,800
Intangible assets, net - cannabis licenses	3,500	—	3,500
Intangible assets, net - customer relationships	1,000	—	1,000
Other non-current assets	40	190	230
Liabilities assumed:			
Accounts payable and accrued liabilities	(464)	(1,829)	(2,293)
Taxes payable	(68)	(33)	(101)
Operating lease liability, current	(193)	(315)	(508)
Other current liabilities	3	(294)	(291)
Operating lease liability, non-current	(1,391)	(2,504)	(3,895)
Fair value of net assets acquired	**$ 10,880**	**$ 44,996**	**$ 55,876**
Consideration paid:			
Settlement of pre-existing relationship	10,880	44,996	$ 55,876
Total consideration	**$ 10,880**	**$ 44,996**	**$ 55,876**

CWG

On April 30, 2021, a subsidiary of the Company acquired 100% of CWG Botanicals, Inc. ("CWG"), an adult-use cannabis cultivation and processing operations in the state of California. The completion of this acquisition expanded the Company's footprint in California.

The consideration paid for CWG consisted of the settlement of a pre-existing relationship, which included a line of credit of $9,321 and the related interest receivable of $1,559, which were both previously recorded in *Notes receivable, non-current* on the Statements of Financial Position.

The purchase price allocation is based upon preliminary valuations and estimates and assumptions which are subject to change within the purchase price allocation period, generally one year from the acquisition date. The primary areas of the purchase price allocation that are not yet finalized relate to the valuation of the intangible assets acquired and the residual goodwill resulting from the transaction.

Greenleaf

On October 1, 2021, a subsidiary of the Company acquired of 100% of Greenleaf Apothecaries ("GLA"), Greenleaf Gardens ("GLG"), and Greenleaf Therapeutics ("GLT"), collectively known as "Greenleaf." Greenleaf consists of cannabis cultivation, processing, and dispensary operations in the state of Ohio. The completion of this acquisition established Acreage's footprint in the Ohio cannabis market.

On July 2, 2018, the Company entered into purchase agreements for Greenleaf for the total purchase price of approximately \$8,245 in cash, \$6,096 in seller notes payable and 1.2 million shares of HSCP with an average fair value of \$7.73 per share, which are convertible into shares of the Company. In addition, the Company extended a \$31,200 line of credit and issued \$12,500 in promissory notes to the Greenleaf entities. The consideration paid was made in exchange for: (a) the rights to acquire the Greenleaf entities upon state regulatory approval and; (b) master services agreements ("MSAs") to operate the entities until such approval was granted and ownership interests were transferred. The purchase consideration paid represents the fair value of the intangible asset related to the MSA that was recorded on the Company's Statement of Financial Position at the time of the transaction. The intangible asset was amortized over the life of the MSAs.

Upon closing, the Company repaid the remaining \$3,300 worth of sellers notes payable and accrued interest and assumed \$42,043 in notes and interest receivable owed to the Company by Greenleaf that was eliminated upon consolidation. Total consideration for the asset transfer transaction was \$44,996, representing the sum of the \$2,953 carrying value of intangible assets from the 2018 transaction and the liabilities assumed. As the Company owns 100% of Greenleaf, the subsidiary is accounted for on a consolidated basis as of the closing date. Refer to Notes 4, 6, and 10 for further discussion regarding the MSA intangible asset conversions, notes forgiven, and sellers notes repaid, respectively.

The purchase price allocation is based upon preliminary valuations and estimates and assumptions which are subject to change within the purchase price allocation period, generally one year from the acquisition date. The primary areas of the purchase price allocation that are not yet finalized relate to the valuation of the tangible and intangible assets acquired and the residual goodwill resulting from the transaction.

NCCRE

On March 19, 2021, a subsidiary of the Company, HSC Solutions, LLC ("HSC Solutions") entered into an assignment of membership agreement to acquire the remaining non-controlling interests of its subsidiary, NCC Real Estate, LLC ("NCCRE"), based primarily on the fair value of property held by NCCRE estimated in the amount of \$850. The consideration paid to the non-controlling interest sellers of \$286 was recorded in *Additional paid-in capital* and *Non-controlling interests* on the Statements of Financial Position. Additionally, the Company subsequently repaid the outstanding principal balance of the NCCRE secured loan. Refer to Note 10 for further discussion.

(in thousands, except per share data)

During the year ended December 31, 2020, the Company completed the following business combination, and has allocated the purchase price as follows:

Purchase Price Allocation		**CCF**
Assets acquired:		
Cash and cash equivalents	$	17
Inventory		1,969
Other current assets		3,164
Capital assets, net		4,173
Operating lease right-of-use asset		4,455
Goodwill		5,247
Intangible assets, net - cannabis licenses		10,000
Other non-current assets		10
Liabilities assumed:		
Accounts payable and accrued liabilities		(228)
Taxes payable		(17)
Other current liabilities		(4,248)
Operating lease liability		(4,455)
Fair value of net assets acquired	**$**	**20,087**
Consideration paid:		
Cash	$	10,000
Settlement of pre-existing relationship		10,087
Total consideration	**$**	**20,087**

On June 26, 2020, a subsidiary of the Company acquired 100% of Acreage CCF New Jersey, LLC ("CCF"), a New Jersey vertically integrated medical cannabis nonprofit corporation.

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

The purchase price allocation is based upon final valuations within the purchase price allocation period (generally one year from the acquisition date).

<u>Divestitures</u>

On December 16, 2021, a subsidiary of the Company sold all equity interests in Maryland Medicinal Research & Caring, LLC ("MMRC") for an aggregate sale price of $1,500. MMRC is licensed to operate a medical cannabis dispensary in Baltimore, Maryland. The aggregate purchase price consisted of approximately $1,500 in cash which was remitted in two equal payments in August 2020 and January 2022. This resulted in a gain on sale of $132 recorded in *Other income (loss), net* on the Consolidated Statements of Operations for the year ended December 31, 2021. Additionally, the Company de-recognized indefinite-lived and finite-lived intangible assets held by MMRC of $801 related to cannabis licenses.

On April 27, 2021, a subsidiary of the Company sold all equity interests in Acreage Florida, Inc. ("Acreage Florida"), for an aggregate sale price of $60,000. Acreage Florida is licensed to operate medical cannabis dispensaries, a processing facility and a cultivation facility in the state of Florida. The aggregate sales price consisted of approximately $21,500 in cash, $7,000 of the buyer's common stock, subject to a rolling lock up restriction period ending one year after the disposition date, with the lock up expiring in monthly 1/6th increments beginning October 27, 2021, and secured promissory notes totaling approximately $31,500. This resulted in a gain on sale of $11,682 recorded in *Other income (loss), net* on the Consolidated Statements of Operations for the year ended December 31, 2021. The Company subsequently sold the promissory notes and recognized a net loss of $2,000 as discussed in Note 6. Further, the Company de-recognized deferred tax liabilities related to indefinite-lived intangible lived assets held by Acreage Florida of $6,044 as a result of the disposition in *Other income (loss), net* on the Consolidated Statements of Operations for the year ended December 31, 2021.

(in thousands, except per share data)

On May 8, 2020, a subsidiary of the Company sold all equity interests in Acreage North Dakota, LLC, a medical cannabis dispensary holder and operator, for $1,000. This resulted in a gain on sale of $217 recorded in *Other income (loss), net* on the Consolidated Statements of Operations for the year ended December 31, 2020.

Assets Held for Sale

The Company 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 (recovery) and charges of $(8,616) and $11,003 within *(Recovery) write down of assets held-for-sale* on the Consolidated Statements of Operations for the years ended December 31, 2021 and December 31, 2020, respectively. 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 as of December 31, 2021 and December 31, 2020.

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

The table below presents the preliminary fair values of the assets and liabilities classified as held for sale on the Consolidated Statement of Financial Position for the years ended December 31, 2021 and December 31, 2020, respectively, and are subject to change based on developments during the sales process.

	December 31, 2021		
	Michigan[1]	**Oregon[2]**	**Total**
Cash	$ —	$ 223	**$ 223**
Inventory	—	445	**445**
Notes receivable, current	—	31	**31**
Other current assets	—	9	**9**
Total current assets classified as held-for-sale	—	708	**708**
Capital assets, net	1,907	2,342	**4,249**
Operating lease right-of-use assets	—	1,695	**1,695**
Goodwill	—	2,191	**2,191**
Non-current assets	—	109	**109**
Total assets classified as held for sale	**$ 1,907**	**$ 7,045**	**$ 8,952**
Accounts payable and accrued liabilities	$ —	$ (639)	**$ (639)**
Operating lease liability, current	—	(441)	**(441)**
Total current liabilities classified as held-for-sale	—	(1,080)	**(1,080)**
Operating lease liability, non-current	—	(787)	**(787)**
Total liabilities classified as held-for-sale	**$ —**	**$ (1,867)**	**$ (1,867)**

(1) The Company was unsuccessful in finding a satisfactory buyer for certain of its Michigan locations. As a result, the assets at these specific locations no longer meet the criteria for being classified as held-for-sale and have been determined to be impaired (refer to Note 7 for further discussion).

(2) In February 2021, a subsidiary of the Company entered into a definitive agreement and management services agreement to sell an indoor cultivation facility in Medford, Oregon and a retail dispensary in Portland, Oregon, for total consideration of $3,000, to be paid in a series of tranches based on estimated regulatory approvals which are not expected to exceed 18 months. Additionally, in September 2021, a subsidiary of the Company entered into a definitive agreement and management services agreements to sell, upon regulatory approval, four retail dispensaries in Oregon for total consideration of $6,500, consisting of a $250 cash payment at the time of signing and a 10-month secured promissory note.

(in thousands, except per share data)

	December 31, 2020					
	Florida	Kanna, Inc.[1]	Maryland	Michigan	Oregon	Total
Inventory	$ 587	$ —	$ —	$ —	$ 606	**$ 1,193**
Notes receivable, current	—	—	—	—	31	**31**
Other current assets	161	—	20	—	1	**182**
Total current assets classified as held-for-sale	748	—	20	—	638	**1,406**
Capital assets, net	7,137	1,156	286	7,469	2,342	**18,390**
Operating lease right-of-use assets	10,305	944	362	—	1,410	**13,021**
Intangible assets, net	26,190	970	802	—	—	**27,962**
Goodwill	—	—	—	—	2,192	**2,192**
Total assets classified as held for sale	**$ 44,380**	**$ 3,070**	**$ 1,470**	**$ 7,469**	**$ 6,582**	**$ 62,971**
Accounts payable and accrued liabilities	$ (247)	$ (132)	$ (3)	$ —	$ (260)	**$ (642)**
Taxes payable	—	1	—	—	(179)	**(178)**
Operating lease liability, current	(501)	(250)	(29)	—	(439)	**(1,219)**
Other current liabilities	(89)	—	—	—	—	**(89)**
Total current liabilities classified as held-for-sale	(837)	(381)	(32)	—	(878)	**(2,128)**
Operating lease liability, non-current	(14,107)	(610)	(325)	—	(988)	**(16,030)**
Deferred tax liabilities	—	—	—	—	4	**4**
Total liabilities classified as held-for-sale	**$ (14,944)**	**$ (991)**	**$ (357)**	**$ —**	**$ (1,862)**	**$ (18,154)**

[1] As of December 31, 2021, the Company was unsuccessful in finding a satisfactory buyer for Kanna, Inc. As a result, the assets no longer meet the criteria for being classified as held-for-sale and have been determined to be impaired (refer to Notes 4 and 7 for further discussion or related impairments).

(in thousands, except per share data)

4. INTANGIBLE ASSETS AND GOODWILL

Intangible assets

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

Intangibles	December 31, 2021	December 31, 2020
Finite-lived intangible assets:		
Management contracts	$ 1,511	$ 19,580
Customer relationships	1,000	—
	2,511	19,580
Accumulated amortization on finite-lived intangible assets:		
Management contracts	(493)	(5,262)
Customer relationships	—	—
	(493)	(5,262)
Finite-lived intangible assets, net	2,018	14,318
Indefinite-lived intangible assets		
Cannabis licenses	117,677	124,665
Total intangibles, net	**$ 119,695**	**$ 138,983**

The intangible assets balance as of December 31, 2021 and 2020 excludes intangible assets reclassified to assets held for sale. Refer to Note 3 for further discussion. The average useful life of finite-lived intangible assets ranges from two to six years, with two and six years being the average useful life for management contracts and customer relationships, respectively.

Impairment of intangible assets

Indefinite-lived intangible assets are evaluated for potential impairment on at least an annual basis using the multi-period excess earnings method ("MPEEM"). MPEEM is a form of income approach used in valuing intangible assets that isolates discounted future cash flows specifically attributed to the intangible asset. During the year ended December 31, 2021 and 2020, the Company performed a quantitative analysis and concluded certain of the indefinite-lived cannabis licenses had a fair value below the carrying value. Accordingly, during the year ended December 31, 2021, the Company recognized impairment charges of $2,337 with respect to its indefinite-lived intangible assets at In Grown Farms, LLC 2 ("IGF") and Kanna, Inc. Additionally, during the year ended December 31, 2020, the Company recognized impairment charges of $92,798 with respect to its indefinite-lived intangible assets Acreage Florida, Inc., Form Factory Holdings, LLC and Kanna, Inc., respectively. The charges are recognized in *Impairments, net* on the Consolidated Statements of Operations.

The Company evaluated the recoverability of finite-lived intangible assets to be held and used by comparing the carrying value of the assets to the future net undiscounted cash flows expected to be generated by the assets to determine if the carrying value is recoverable. If the carrying value is determined not to be recoverable, the present value of expected future cash flows is compared to the carrying value of the asset. An impairment is booked for the excess of carrying value over the discounted cash flows. During the year ended December 31, 2021, the Company recognized impairment charges of $4,891 with respect to its finite-lived intangible assets at Prime Alternative Treatment Center Consulting, LLC ("PATCC") and Kanna, Inc. Additionally, during the year ended December 31, 2020, the Company recognized impairment charges of $8,324 with respect to its finite-lived intangible assets at Form Factory, CWG Botanicals, Inc. ("CWG") and MA-SSBP. The charges are recognized in *Impairments, net* on the Consolidated Statements of Operations.

These impairments resulted in the recognition of a tax provision benefit and an associated reversal of deferred tax liabilities of $881 and $31,498 during the year ended December 31, 2021 and 2020, respectively.

(in thousands, except per share data)

WCM Refinancing

On March 6, 2020, a subsidiary of the Company closed on a refinancing, transaction and conversion related to Northeast Patients Group, operating as Wellness Connection of Maine ("WCM"), a medical cannabis business in Maine, resulting in ownership of WCM by three individuals. In connection with the transaction, WCM converted from a non-profit corporation to a for-profit corporation. Refer to Note 6 for further discussion. Concurrently, a portion of the management contract was converted into a promissory note of $18,800 in *Notes receivable, non-current* on the Consolidated Statements of Financial Position in exchange for the previously held management contract. An impairment was determined as the differential between the net carrying value of the previously held management contract and the promissory note received in exchange. This resulted in an impairment loss to finite-lived intangible assets of $9,395 in *Impairments, net* on the Consolidated Statements of Operations for the year ended December 31, 2020.

Purchases and disposals of intangible assets

The Company purchased and disposed of intangible assets related to the CWG, Greenleaf, MMRC and Acreage Florida transactions. Refer to Note 3 for further discussion.

Modification of management contract

On October 7, 2019, the Company modified the terms of its Management Service Agreement ("MSA") with Greenleaf Apothecaries, LLC ("GLA"). As a result of this modification, the Company exchanged certain future cash flows under the MSA in exchange for a note receivable of $12,500. In connection with this modification, the Company reduced the carrying value of the MSA by $10,106, recorded a gain of $2,394 and reduced the associated deferred tax liability by $2,730, with a corresponding increase to *Other equity transactions* in the Consolidated Statements of Shareholders' Equity.

Amortization expense recorded during the years ended December 31, 2021, 2020 and 2019 was $7,752, $2,789 and $5,276, respectively.

Expected annual amortization expense for existing intangible assets subject to amortization at December 31, 2021 is as follows for each of the next five fiscal years:

Amortization of Intangibles	**2022**	**2023**	**2024**	**2025**	**2026**
Amortization expense	$ 751	$ 751	$ 751	$ 751	$ 313

Goodwill

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

Goodwill	**Total**
December 31, 2019	**$ 105,757**
Acquisitions	5,247
Impairment	(76,890)
Transferred to held-for-sale	(2,192)
December 31, 2020	**$ 31,922**
Acquisitions	19,800
Impairment	(12,631)
Other adjustments(1)	4,219
December 31, 2021	**$ 43,310**

(1) Represents adjustments related to the remeasurement of certain deferred tax assets and related adjustments within the measurement period.

During the year ended December 31, 2021, the Company recognized impairment charges of $12,631 with respect to its goodwill related to Illinois and New Hampshire. The Company applied the discounted cash flow approach to determine the fair value of the reporting units. The charge is recognized in *Impairments, net* on the Consolidated Statements of Operations.

(in thousands, except per share data)

During the year ended December 31, 2020, the Company recognized impairment charges of $65,304 with respect to its goodwill related to Form Factory. The Company applied the discounted cash flow approach to determine the fair value of the reporting units. The charge is recognized in *Impairments, net* on the Consolidated Statements of Operations.

Pursuant to the WCM refinancing described above, the Company recognized an impairment loss to goodwill of $11,586 on *Impairments, net* on the Consolidated Statements of Operations for the year ended December 31, 2020. This was determined as the differential between the net carrying value of the previously held management contract and the promissory note received in exchange.

5. INVESTMENTS

The carrying values of the Company's investments in the Consolidated Statements of Financial Position as of December 31, 2021 and 2020 are as follows:

Investments	December 31, 2021	December 31, 2020
Investments held at FV-NI	35,226	34,126
Total long-term investments	**$ 35,226**	**$ 34,126**

Income (loss) from investments, net in the Consolidated Statements of Operations during the years ended December 31, 2021, 2020 and 2019 is as follows:

Investment income (loss)	Year Ended December 31,		
	2021	2020	2019
Short-term investments	$ —	$ —	$ 738
Investments held at FV-NI	(3,549)	1,158	(2,218)
Equity method investments	—	(1,060)	1,000
Income (loss) from investments, net	**$ (3,549)**	**$ 98**	**$ (480)**

<u>Short-term investments</u>

The Company from time to time invests in U.S. Treasury bills which are classified as held-to-maturity and measured at amortized cost. These range in original maturity from three to six months, and bear interest ranging from 2.2% - 2.4%. During the years ended December 31, 2021 and 2020 the Company did not hold any short-term investments.

<u>Investments held at FV-NI</u>

The Company has investments in equity of several companies that do not result in significant influence or control. These investments are carried at fair value, with gains and losses recognized in the Consolidated Statements of Operations.

In November 2020, the Company completed an exchange of all its equity interests in GreenAcreage Real Estate Corp. ("GreenAcreage") and its equity method investment in the management company of GreenAcreage in exchange for land and building previously accounted for as a failed sales-leaseback transaction (refer to Notes 7 and 14 for further discussion).

As further described under the "6.10% Secured debenture due September 2030" in Note 10, on September 23, 2020, a subsidiary of the Company, Universal Hemp, LLC ("Universal Hemp") was advanced gross proceeds of $50,000 (less transaction costs) pursuant to the terms of a secured debenture. The Company subsequently engaged an investment advisor, which under the investment advisor's sole discretion, on September 28, 2020 invested $34,019 of these proceeds on behalf of Universal Hemp. As a result, Universal Hemp acquired 34,019 class B units, at $1 par value per unit, which represented 100% financial interest in an Investment Partnership, a Canada-based limited partnership. An affiliate of the Institutional Investor holds Class A units of the Investment Partnership. The general partner of the Investment Partnership is also an affiliate of the Institutional Investor. The Class B units are held by the Investment Advisor as an agent for Universal Hemp.

(in thousands, except per share data)

Universal Hemp, through its investment with the Investment Advisor, was originally determined to hold significant influence in the Investment Partnership in accordance with ASC 810 due to (1) the economic financial interest, and (2) the entitlement to matters as they pertain to 'Extraordinary Resolution' items as defined within the Investment Partnership Agreement. As a result, the Company accounted for the investment in the Investment Partnership under the equity method until December 2020. Refer to Note 10 for further discussion. In December 2020, as the Company no longer held significant influence due to the removal of the Extraordinary Resolution entitlements and other revisions in the Investment Partnership Agreement. As a result, the Company changed its accounting for the Investment Partnership to recognize the investment at fair value, with gains and losses recognized in the Consolidated Statements of Operations.

6. NOTES RECEIVABLE

Notes receivable as of December 31, 2021 and 2020 consisted of the following:

	December 31, 2021	December 31, 2020
Promissory notes receivable	$ 27,260	$ 39,128
Line of credit receivable	12,609	55,043
Interest receivable	2,834	5,762
Allowance for notes and interest receivables	(8,036)	—
Total notes receivable	**$ 34,667**	**$ 99,933**
Less: Notes receivable, current	7,104	2,032
Notes receivable, non-current	$ 27,563	$ 97,901

Interest income on notes receivable during the years ended December 31, 2021, 2020 and 2019 totaled $4,824, $6,695 and $3,978, respectively.

The Company has determined that the collectability of certain notes receivables is doubtful based on information available. As of December 31, 2021, the Company's allowance for notes receivable of $8,036 includes $6,046 of principal outstanding and $1,990 of accrued interest, and represents the full value of such loan balances. As of December 31, 2020, the Company's allowance for notes receivable was nil For the years ended December 31, 2021, 2020, and 2019, the Company recognized losses of $7,869, $8,161, and nil, respectively, in *Loss on notes receivable* on the Consolidated Statements of Operations.

<u>Activity during the year ended December 31, 2021</u>

On April 27, 2021, the Company received three secured promissory notes in the aggregate amount of $31,500 related to the sale of Acreage Florida. Of the $31,500 in promissory notes, a promissory note for $3,500 was collected during the year ended December 31, 2021, and in June 2021, the remaining two promissory notes totaling $28,000 were sold in a related party transaction to Viridescent Realty Trust, Inc. ("Viridescent") for cash proceeds of $26,000. This sale resulted in a loss of $2,000 recorded in *Other income (loss), net* on the Consolidated Statements of Operations. Refer to Notes 3 and 14 for further discussion.

On October 1, 2021, the Company completed the acquisition of Greenleaf, an operator of cultivation, processing and retail facilities in Ohio. As a result of the acquisition, notes receivable and interest receivable of $42,043 related to Greenleaf were assumed and eliminated. This consisted of a $9,565 promissory note, which was comprised of principal and interest receivable of $9,554 and $11, respectively, and a $32,478 line of credit, which was comprised of the amount borrowed and interest receivable of $29,422 and $3,056, respectively. Refer to Note 3 for further discussion of the Greenleaf acquisition.

On April 30, 2021, a subsidiary of the Company acquired 100% of CWG, and the amounts outstanding under the line of credit were converted into equity in CWG. Refer to Note 3 for further discussion.

In March 2021, the Company entered into a revised consulting services and line of credit agreement with PATCC, whereby previously unrecognized management fees were settled for $2,500, which was recognized in *Other revenue, net* on Consolidated Statements of Operations during the year ended December 31, 2021. Pursuant to the revised line of credit agreement, the line of credit is non-interest bearing and will be repaid on a payment schedule with seven payments in the aggregate amount of $7,150 through June 2023.

(in thousands, except per share data)

Activity during the year ended December 31, 2020

On March 6, 2020, a subsidiary of the Company closed on a refinancing transaction and conversion related to Northeast Patients Group, operating as WCM, a medical cannabis business in Maine, resulting in ownership of WCM by three individuals. In connection with the transaction, WCM converted from a non-profit corporation to a for-profit corporation. WCM previously had a series of agreements with Wellness Pain & Management Connection LLC (“WPMC”), which resulted in an outstanding balance of $18,800 due to WPMC as of closing of this transaction. A restated consulting agreement was put in place, whereby WCM agrees to pay a fixed annual fee of $120, payable monthly, in exchange for a suite of consulting services. In addition, a promissory note payable to WPMC was signed in the amount of $18,800 to convert the existing payment due into a fixed, secured debt obligation.

In order to fund the transaction of WCM, a subsidiary of the Company created a new Maine corporation, named Maine HSCP, Inc. (“Maine HSCP”). At closing, a subsidiary of the Company contributed $5,700 to Maine HSCP, and then sold 900 shares of Maine HSCP, constituting all of the outstanding equity interests of Maine HSCP, to three qualifying individuals in exchange for promissory notes of $1,900 each. Each note is secured by a pledge of the shares in Maine HSCP, and payment of the note is to be made solely from dividends paid to the shareholder by Maine HSCP, except for amounts to be paid to the shareholder to cover tax obligations. As of December 31, 2020, the Company recorded a holdback reserve of $917 for the State of Maine as a result of finalization of valuation by the State. The Company’s relevant subsidiary has the option, exercisable at any time, to buy back the shares, at the higher of fair market value or the remaining balance under the promissory notes. The individuals also have the right at any time to put the shares to the Company’s subsidiary on the same terms. The net equity impact to the Company was nil, and the option described above is only redeemable if permissible pursuant to Maine regulations. During the year ended December 31, 2021, the Company paid $500 to the State of Maine and $417 to the former owners as a result of the $917 holdback, thereby relieving the reserve on the Company’s Consolidated Statement of Financial Position.

During the year ended December 31, 2020, the Company wrote off a convertible promissory note receivable and the accrued interest of $8,000 and $161, respectively, from an unrelated third party as the Company determined that the note was not collectible and recorded a loss of $8,161 in *Loss on notes receivable* on the Consolidated Statements of Operations. On November 12, 2021, the Company sold the convertible note receivable for $4,200 in cash proceeds. This sale resulted in a miscellaneous income of $4,200 recorded in *Other income (loss), net* on the Consolidated Statements of Operations.

On June 26, 2020, a subsidiary of the Company acquired 100% of CCF, and the $7,952 line of credit and interest receivable of $2,135 were assumed and eliminated. Refer to Note 3 for further discussion.

7. CAPITAL ASSETS, net

Net property, plant and equipment consisted of:

	December 31, 2021	December 31, 2020
Land	$ 3,777	$ 3,811
Building	43,921	34,114
Right-of-use asset, finance leases	5,077	5,077
Construction in progress	7,644	13,697
Furniture, fixtures and equipment	31,325	18,062
Leasehold improvements	51,646	23,681
Capital assets, gross	$ 143,390	$ 98,442
Less: accumulated depreciation	(16,593)	(9,306)
Capital assets, net	**$ 126,797**	**$ 89,136**

In August 2021, the Company’s Sewell facility in New Jersey was negatively impacted by a tornado formation from Hurricane Ida. The unusually severe weather conditions caused widespread damage and resulted in a $9,130 loss to capital assets, which has been offset by insurance proceeds of $7,000. The net loss of $2,130 was recognized in *Impairments, net* on the Consolidated Statements of Operations for the year ended December 31, 2021.

During the year ended December 31, 2021, the Company determined that it was unable to sell certain Held-for-Sale assets for acceptable proceeds and, as such, these assets were reclassified as Held-and-Used. The determination and reclassification of these assets was considered a triggering event for capital asset impairment testing. Upon assessment, these specific capital assets were not considered to have future economic value and were to be abandoned immediately as they were not in use while being held-for-sale. As such, the fair value of the assets was considered to be nil and the Company recognized an impairment charge of $6,719. Further, as the Company assesses its operating entities from time to time, the Company determined that additional capital assets were also not considered to have future economic value and were to be abandoned immediately. As such, the fair value of the assets was considered to be nil and the Company recognized an impairment charge of $3,189. The total impairment charge of $9,908 was recognized in *Impairments, net* on the Consolidated Statements of Operations for the year ended December 31, 2021. Refer to Note 3 for further discussion on changes in Held-for-Sale entities during the year ended December 31, 2021.

During the year ended December 31, 2020, the Company sold parcels of land for an aggregate sale price of $2,166. In connection with these transactions, the Company recorded a loss on sale of $981 in *Other loss, net* on the Consolidated Statements of Operations.

Depreciation of capital assets for the years ended December 31, 2021, 2020 and 2019 includes $3,364, $3,381, and $2,317 of depreciation expense, and $4,206, $2,479, and $1,556 that was capitalized to inventory, respectively.

Sale-leasebacks

During the year ended December 31, 2019, the Company sold and subsequently leased back several of its capital assets in a transaction with GreenAcreage, a related party (refer to Note 14 for further discussion). The Company sold assets and subsequently leased them back for total proceeds of $19,052. The subsequent leases met the criteria for finance leases, and as such, the transactions do not qualify for sale-leaseback treatment. The “sold” assets remain within land, building and leasehold improvements, as appropriate, for the duration of the lease and a financing liability equal to the amount of proceeds received is recorded within debt (refer to Note 10 for further discussion). Upon lease termination, the sale will be recognized by removing the remaining carrying values of the capital assets and financing liability, with any difference recognized as a gain.

In November 2020, the Company completed an exchange of all its equity interests in GreenAcreage and its equity method investment in the management company of GreenAcreage in exchange for land and building previously accounted for as a failed sales-leaseback transaction and recognized a gain of $1,473 in *Other income (loss), net* on the Consolidated Statements of Operations.

(in thousands, except per share data)

8. LEASES

The Company leases land, buildings, equipment and other capital assets which it plans to use for corporate purposes in addition to the production and sale of cannabis products. Leases with an initial term of 12 months or less are not recorded on the Consolidated Statements of Financial Position and are expensed in the Consolidated Statements of Operations on the straight-line basis over the lease term. The Company does not have any material variable lease payments, and accounts for non-lease components separately from leases.

Balance Sheet Information	Classification	December 31, 2021	December 31, 2020
Right-of-use assets			
Operating	Operating lease right-of-use assets	$ 24,598	$ 17,247
Finance	Capital assets, net	4,522	4,776
Total right-of-use assets		**$ 29,120**	**$ 22,023**
Lease liabilities			
Current			
Operating	Operating lease liability, current	$ 2,145	$ 1,492
Non-current			
Operating	Operating lease liability, non-current	24,255	16,609
Financing	Debt, non-current	5,245	5,174
Total lease liabilities		**$ 31,645**	**$ 23,275**

Statement of Operations Information	Classification	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Short-term lease expense	General and administrative	$ 241	$ 1,258	$ 1,262
Operating lease expense	General and administrative	4,437	6,252	5,351
Finance lease expense:				
Amortization of right of use asset	Depreciation and amortization	254	161	122
Interest expense on lease liabilities	Interest expense	757	820	290
Sublease income	Other income (loss), net	—	(37)	(110)
Net lease cost		**$ 5,448**	**$ 7,196**	**$ 5,653**

Statement of Cash Flows Information	Classification	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash paid for operating leases	Net cash used in operating activities	$ 4,083	$ 6,130	$ 3,667
Cash paid for finance leases - interest	Net cash used in operating activities	$ 680	$ 1,316	$ 223

(in thousands, except per share data)

The following represents the Company's future minimum payments required under existing leases with initial terms of one year or more as of December 31, 2021:

Maturity of lease liabilities	Operating Leases[1]	Finance Leases
2022	$ 4,892	$ 701
2023	4,822	722
2024	4,536	743
2025	4,553	766
2026	4,452	789
Thereafter	20,469	12,487
Total lease payments	**$ 43,724**	**$ 16,208**
Less: interest	16,096	10,963
Present value of lease liabilities	**$ 27,628**	**$ 5,245**
Weighted average remaining lease term (years)	8	13
Weighted average discount rate	10%	12%

[1] Includes minimum payments under existing operating leases currently classified as held-for-sale (refer to Note 3 for further discussion).

As of December 31, 2021, the Company entered into a lease agreement that has not yet commenced. The Company will determine the classification at the commencement date for this lease, but currently expects the lease to be classified as an operating lease. The lease term covers a ten-year period, with base rent of $360 per year, which increases by 3.00% per year for years two through ten.

9. INVENTORY

The Company's inventory balance consists of the following:

	December 31, 2021	December 31, 2020
Retail inventory	$ 3,331	$ 1,803
Wholesale inventory	28,643	18,055
Cultivation inventory	6,367	2,317
Supplies & other	3,463	1,540
Total	**$ 41,804**	**$ 23,715**

(in thousands, except per share data)

10. DEBT

The Company's debt balances consist of the following:

Debt balances	December 31, 2021	December 31, 2020
3.70% Loan due December 2021	$ —	$ 470
Seller's notes	—	2,581
Financing liability (failed sales leaseback)	15,253	15,253
Finance lease liabilities	5,245	5,174
3.55% Credit facility due March 2022	—	20,043
3.55% Credit facility due June 2021	—	22,169
7.50% Loan due April 2026	30,763	32,124
6.10% Secured debenture due September 2030	46,050	46,085
10.00% Note due July 2021	—	2,000
15.00% Loan due October 2024	—	22,870
22.81% Loan due May 2022	—	4,438
Note due December 2024	4,750	7,250
9.75% Credit facilities due January 2026	68,673	—
Total debt	**$ 170,734**	**$ 180,457**
Less: current portion of debt	1,583	27,139
Total long-term debt	**$ 169,151**	**$ 153,318**

The Company issued $81,407 and 160,587 of debt during the years ended December 31, 2021 and 2020, respectively, relating to project financing and debt refinancing arrangements. The Company repaid $91,039 and $25,821 of long-term debt during the years ended December 31, 2021 and 2020, respectively, relating to project financing and debt refinancing arrangements.

Scheduled maturities of debt, excluding amortization of discount and issuance costs, are as follows:

2022	$ 1,583
2023	$ —
2024	$ 3,167
2025	$ —
Thereafter	$ 178,498

During the years ended December 31, 2021, 2020, and 2019, the Company incurred interest expense of $19,964, $15,853, and $1,194, respectively, on the Consolidated Statements of Operations. Interest expense for the year ended December 31, 2021 included debt discount amortization of $1,113 and amortization of debt issuance costs of $2,528. As of December 31, 2021, the Company had unamortized discount and debt issuance costs of $6,194 and $6,320 respectively, which is netted against the gross carrying value of long-term debt in *Debt, non-current* on Consolidated Statements of Financial Position. Additionally, as of December 31, 2021 and 2020, the Company had accrued interest of $1,432 and $3,504, respectively, within *Interest payable* on the Consolidated Statements of Financial Position.

<u>3.70% Loan due December 2021</u>

A consolidated subsidiary entered into a $550 secured loan with a financial institution for the purchase of a building. The building is leased to the subsidiary. The secured loan carries a fixed interest rate of 3.7% and was due in December 2021. In connection with the Company acquiring the remaining non-controlling interests in the subsidiary, the secured loan was repaid in March 2021. Refer to Note 3 for further discussion.

<u>Seller's notes</u>

The Company issued Seller's notes payable in connection with several transactions, bearing interest at rates ranging from 3.5% to 10%. The Company repaid the outstanding balance in full in October 2021.

Financing liability (failed sales leaseback)

In connection with the Company's failed sale-leaseback transaction (refer to Note 7 for further discussion), a financing liability was recognized equal to the cash proceeds received. The Company will recognize the cash payments made on the lease as interest expense, and the principal will be de-recognized upon expiration of the lease.

Previous related party debt

During the year ended December 31, 2019, Kevin Murphy, the Chairman of the Board of Directors (i.e., a related party), made a non-interest bearing loan of $15,000 to Acreage. In January 2020, Mr. Murphy made an additional non-interest bearing loan of $5,000 to Acreage. These amounts were subsequently repaid in March 2020.

In October 2020, Mr. Murphy made an interest bearing loan of $2,100 to the Company, bearing interest at 9.9% per annum. This amount was subsequently repaid in November 2020.

3.55% Credit facilities due June 2021 and March 2022

On March 11, 2020, the Company borrowed $21,000 from an institutional lender pursuant to a credit facility. The credit facility permits the Company to borrow up to $100,000, which may be drawn down by the Company in four tranches, maturing two years from the date of the first draw down. The Company will pay an annual interest rate of 3.55% on the first advance of debt for a term of two years. The borrowed amounts under the credit facility are fully collateralized by $22,000 of restricted cash, which was borrowed pursuant to the loan transaction described below. Any additional draws must be fully cash collateralized as well.

Also on March 11, 2020, the Company closed $22,000 in borrowings pursuant to a loan transaction with a third party lender. The maturity date is 366 days from the closing date of the loan transaction. The Company will pay monthly interest on the collateral in the form of 27 SVS through the maturity date. The Lender may put any unsold interest shares to the Company upon maturity at a price of $4.50 per share. Kevin Murphy, the Chairman of the Board of Directors, loaned $21,000 of the $22,000 borrowed by the Company to the Lender. The loan is secured by the non-U.S. intellectual property assets, a cannabis state license and 12,000 SVS shares of the Company.

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

The Company has determined such equity interest on collateral to be a mandatorily redeemable financial instrument that is recorded as a liability in accordance with ASC 480 - *Distinguishing liabilities from equity* ("ASC 480"). The liability is calculated based upon the share interest multiplied by the maturity price of $4.50 per share.

On March 7, 2021, the Company extended the maturity date related to the $22,000 in borrowings with the Lender to March 31, 2021. On March 29, 2021, the Company further extended the maturity date of Tranche B of the loan transaction with the third party lender, which is $21,000 of the $22,000 aggregate amount of the loan transaction, to June 30, 2021. Tranche A of the loan transaction, which is $1,000 of the $22,000 aggregate amount of the loan transaction, was subsequently repaid in April 2021. The lender of Tranche A of the loan transaction did not exercise their redemption right for the Company to repurchase the interest shares within the redemption period. Accordingly, the liability was reclassified into equity in April 2021.

On June 15, 2021, the Company subsequently repaid all amounts outstanding under the 3.55% credit facility. Additionally, Tranche B of the loan transaction with the IP Investment Company was subsequently repaid in June 2021.

15.00% Convertible debenture due May 2021

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

The Convertible Debenture bears interest at 15% per annum and was secured by the Company's medical cannabis dispensaries in Connecticut. The Convertible Debenture was convertible by the holder in whole or in part after September 30, 2020. Prior to September 30, 2020, the holder could convert only up to $550 of principal amount. The Convertible Debenture may not be converted to common stock to the extent such conversion would result in the holder beneficially owning more than 4.99% of the Company's outstanding common stock. The Convertible Debenture was convertible into Class A Subordinate Voting Shares of the Company at a conversion price of $1.68 per share, subject to the conversion limitations described above. On September 4, 2020, the holder accordingly converted $550 of the principal amount.

The maturity date is the earlier of (i) May 29, 2021 or (ii) on the consummation of one or more debt, equity or a combination of debt and equity financing transactions in which the Company receives gross proceeds of $40,000 or more. The Company accreted all discounts to *Interest expense* on the Consolidated Statements of Operations.

The Company recorded beneficial conversion of $523, representing 5% of the principal amount which was convertible in *Share Capital* in the Consolidated Statements of Shareholders' Equity, and an equivalent discount was recorded against the carrying value of the Convertible Debenture. The beneficial conversion feature was determined in accordance with ASC 470-20 - *Debt with conversion and other options* and is calculated at its intrinsic value being the difference between the conversion price and the fair value of the common stock into which the debt is convertible at the commitment date, being $3.28 per share, multiplied by the number of shares into which the debt is convertible. The Company had the right to redeem up to 95% of the principal amount on or prior to September 29, 2020 without penalty.

On September 29, 2020, the Company retired the convertible debenture, utilizing the proceeds received from the 7.5% Loan due 2026 entered into on the same date as described below under "6.10% Secured debenture due September 2030."

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

60.00% Loan due October 2020

On June 16, 2020, the Company entered into a short-term definitive funding agreement with an institutional investor for gross proceeds of $15,000 (less transaction costs of approximately $943). The secured note has a maturity date of 4 months and bears an interest rate of 60% per annum. It is secured by, among other items, the Company's cannabis operations in Illinois, New Jersey and Florida, as well as the Company's U.S. intellectual property. In the event of default, the Company is obligated to pay the lender an additional fee of $6,000. The Company may pre-pay the secured note without penalty or premium at any time following the 90th day after closing.

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

6.10% Secured debenture due September 2030

On September 23, 2020, pursuant to the implementation of the Amended Arrangement (Refer to Note 13 for further discussion), a subsidiary of Canopy Growth advanced gross proceeds of $50,000 (less transaction costs of approximately $4,025) to Universal Hemp, an affiliate of the Company, pursuant to the terms of a secured debenture ("6.1% Loan"). 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. The debenture bears interest at a rate of 6.1% per annum, matures 10 years from the date hereof or such earlier date in accordance with the terms of the debenture and all interest payments made pursuant to the debenture are payable in cash by Universal Hemp. The debenture is not convertible and is not guaranteed by Acreage.

With a portion of the proceeds for the 6.1% Loan received by Universal Hemp, Acreage engaged an Investment Advisor which, under the Investment Advisor's sole discretion, invested on behalf of Universal Hemp $34,019 on September 28, 2020. As a result, Universal Hemp acquired 34,019 class B units, at $1.00 par value per unit, which represented 100% financial interest in the Investment Partnership, a Canada-based limited partnership. An affiliate of the Institutional Investor holds class A units of the Investment Partnership. The general partner of the Investment Partnership is also an affiliate of the Institutional Investor. The class B units are held by the Investment Advisor as an agent for Universal Hemp. Upon execution of the limited partnership agreement, $1,019 was distributed to the class A unit holders of the Investment Partnership.

On September 28, 2020, the Company received gross proceeds of $33,000 (less transaction costs of approximately $959) from an affiliate of the Institutional Investor (the "Lender") and used a portion of the proceeds of this loan to retire its short-term

$11,000 convertible note (as described above) and its short-term note aggregating approximately $18,000 in October 2020, with the remainder being used for working capital purposes. The loan is unsecured, matures in 3 years and bears interest at a 7.5% annual interest rate. The Lender is controlled by the Institutional Investor. The Investment Partnership is the investor in the Lender. On December 16, 2021, the Company paid an amendment fee of $413 to extend the maturity date from September 28, 2023 to April 2, 2026. The amendment was treated as a debt extinguishment.

10.00% Note due July 2021

In October 2020, a third party lender extended a promissory note of $2,000 to the Company bearing interest at 10% per annum. The promissory note matured on July 5, 2021 and the outstanding principal was repaid in full.

15.00% Loan due October 2024

In October 2020, the Company's subsidiary received initial commitments and funding from a syndicate of lenders for gross proceeds of $28,000 (before 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 was $70,000. On December 16, 2021, this loan was repaid in full.

In connection with the advance, the Company issued the lenders an aggregate of 1,557 Fixed Share Warrants with each Fixed Share Warrant exercisable for one Fixed Share and 698 Floating Share Warrants with each Floating Share Warrant exercisable for one Floating Share. The exercise price of each Fixed Share Warrant is $3.15 and the exercise price of each Floating Share Warrant is $3.01. The warrants are exercisable for a period of 4 years.

22.81% Loan due May 2022

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 provided for an annual interest rate of 16% and a term of 18 months. The loan was used to complete the expansion of the Company's cultivation and processing facility in Illinois (the "Illinois Property"). The loan was secured by the Illinois Property and was 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. On December 16, 2021, this loan was repaid in full.

Note due December 2024

In November 2020, the Company issued a promissory note with a third party, which is non-interest bearing and payable based on a payment schedule with ten payments in the aggregate amount of $7,750 through December 31, 2024, as a result of a settlement described under the "CanWell Dispute" in Note 13.

9.75% Credit facilities due January 2026

On December 16, 2021 the Company entered into a $150,000 senior secured credit facility with a syndicate of lenders consisting of a $75,000 initial draw, a $25,000 delayed draw that must be advanced within 12 months and a $50,000 committed accordion facility that is available after December 1, 2022, provided certain financial covenants are met, and with a maturity of January 1, 2026. Upon closing, gross proceeds of $75,000 were drawn (before origination discounts and issuance costs of approximately $4,000 and $1,500, respectively, which were capitalized).

The loan is secured by pledged equity interests and substantially all of the assets of the Company. Advances under the facility bear interest at 9.75% per annum (plus an additional 1.0% per annum until certain collateral assignment agreements are delivered) and undrawn amounts (excluding the committed accordion facility until it is available) bear interest at 3.0% per annum. The loan is subject to various financial covenants, including a fixed charge coverage ratio and two leverage ratios. Commencing with the receipt of the of the loan, mandatory prepayments are required from net proceeds of certain sale or disposition activities or unused insurance proceeds from the Sewell impairment, as defined by the Credit Agreement.

As of December 31, 2021, the $25,000 delayed draw was not drawn upon. Refer to Note 14 for further discussion of the syndicated related party lender.

(in thousands, except per share data)

11. SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

The table below details the change in Pubco shares outstanding by class for the year ended December 31, 2021:

Shareholders' Equity	Fixed Shares	Floating Shares	Fixed Shares Held in Treasury	Floating Shares Held in Treasury	Fixed Multiple Shares	Total Shares Outstanding
December 31, 2020	**71,346**	**30,628**	**(589)**	**(253)**	**118**	**101,250**
Issuances	2,573	2,014	—	—	—	4,587
NCI conversions	746	320	—	—	—	1,066
December 31, 2021	**74,665**	**32,962**	**(589)**	**(253)**	**118**	**106,903**

During the year ended December 31, 2021, the Company issued 61 Fixed Shares and 28 Floating Shares as compensation for consulting services expense of $300, recorded in *Other equity transactions* on the Consolidated Statements of Shareholders' Equity. Additionally, during the year ended December 31, 2021, the Company issued 6 Fixed Shares and 3 Floating Shares related to the 3.55% Credit facility and collateral borrowings, recorded in on the Consolidated Statements of Shareholders' Equity.

Warrants

A summary of the warrants activity outstanding is as follows:

Warrants	Fixed Shares	Floating Shares
December 31, 2020	**7,131**	**3,087**
Expired	(1,314)	(563)
December 31, 2021	**5,817**	**2,524**

During the year ended December 31, 2020, the Company issued 6,085 special warrants priced at $4.93 per unit in conjunction with a private placement investment transaction. The special warrants were subsequently exercised into one unit comprised of one SVS and one SVS purchase warrant with an amended exercise price of $4.00 and a five-year term, as discussed in Note 13. Further, the Company issued an aggregate of 1,557 Fixed Share and 698 Floating Share warrants in conjunction with the senior secured credit term loan facility. Each warrant is exercisable for one Fixed Share and one Floating Share, respectively. The exercise price of each Fixed and Floating Share warrant is $3.15 and $3.01, respectively. The warrants are exercisable for a period of 4 years. Refer to Note 10 for further discussion.

The weighted-average remaining contractual life of the warrants outstanding is approximately 3 years. There was no aggregate intrinsic value for warrants outstanding as of December 31, 2021.

<u>Non-controlling interests - convertible units</u>

The Company has NCIs in consolidated subsidiaries USCo2 and HSCP. The non-voting shares of USCo2 and HSCP units make up substantially all of the NCI balance as of December 31, 2021 and are convertible for either 0.7 of a Fixed Share and 0.3 of a Floating Share of Pubco or cash, as determined by the Company. Summarized financial information of HSCP is presented below. USCo2 does not have discrete financial information separate from HSCP.

(in thousands, except per share data)

HSCP net asset reconciliation	December 31, 2021	December 31, 2020
Current assets	$ 113,011	$ 144,938
Non-current assets	375,807	410,269
Current liabilities	(29,256)	(80,649)
Non-current liabilities	(195,791)	(171,485)
Other NCI balances	(718)	(742)
Accumulated equity-settled expenses	(226,596)	(206,315)
Net assets	$ 36,457	$ 96,016
HSCP/USCo2 ownership % of HSCP	17.24 %	18.68 %
Net assets allocated to USCo2/HSCP	$ 6,285	$ 17,936
Net assets attributable to other NCIs	718	742
Total NCI	$ 7,003	$ 18,678

	Year Ended December 31,		
HSCP Summarized Statement of Operations	2021	2020	2019
Net loss allocable to HSCP/USCo2	$ (57,572)	$ (372,386)	$ (191,511)
HSCP/USCo2 weighted average ownership % of HSCP	17.66 %	19.66 %	23.44 %
Net loss allocated to HSCP/USCo2	$ (10,167)	$ (73,211)	$ (44,890)
Net loss allocated to other NCIs	20	(319)	(4)
Net loss attributable to NCIs	$ (10,147)	$ (73,530)	$ (44,894)

As of December 31, 2021, USCo2's non-voting shares owned approximately 0.51% of HSCP units. USCo2's capital structure is comprised of voting shares (approximately 71.33%), all of which are held by the Company, and of non-voting shares (approximately 28.67%) held by certain former HSCP members. Certain executive employees and profits interests holders own approximately 16.73% of HSCP units. The remaining 82.76% interest in HSCP is held by USCo and represents the members' equity attributable to shareholders of the parent.

During the years ended December 31, 2021 and 2020, the Company had several transactions with HSCP and USCo2 that changed its ownership interest in the subsidiaries but did not result in loss of control. These transactions included business acquisitions and the redemption of HSCP and USCo2 convertible units for Pubco shares (as shown in the table below), and resulted in a $1,063 and $3,395 allocation from NCI to shareholders' equity for the years ended December 31, 2021 and 2020, respectively.

During the year ended December 31, 2019, the Company made cash payments in the amount of $4,278 to HSCP and USCo2 unit holders in satisfaction of redemption requests the Company chose to settle in cash, as well as for LLC unitholders tax liabilities in accordance with the HSCP operating agreement.

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

	Year Ended December 31,	
Convertible Units	2021	2020
Beginning balance	**24,142**	**25,035**
Vested LLC C-1s canceled	—	(1,310)
LLC C-1s vested	—	1,000
NCI units converted to Pubco	(1,066)	(583)
Ending balance	**23,076**	**24,142**

12. EQUITY-BASED COMPENSATION EXPENSE

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

(in thousands, except per share data)

Equity-based compensation expense	**Year Ended December 31,**		
	2021	**2020**	**2019**
Equity-based compensation - Plan	$ 19,946	$ 74,763	$ 86,002
Equity-based compensation - Other	—	17,301	11,536
Total equity-based compensation expense	**$ 19,946**	**$ 92,064**	**$ 97,538**

Amended Arrangement with Canopy Growth

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

Equity-based compensation - Plan (Acreage Holdings, Inc. Omnibus Incentive Plan)

In connection with the RTO transaction, the Company's Board of Directors adopted an Omnibus Incentive Plan, as amended May 7, 2019, June 19, 2019 and September 23, 2020 (the "Plan"), which permits the issuance of stock options, stock appreciation rights, stock awards, share units, performance shares, performance units and other stock-based awards up to an amount equal to 15% of the issued and outstanding Subordinate Voting Shares of the Company.

Pursuant to the Amended Arrangement, the Company retained the Plan described above, the upper limit of issuances being up to an amount equal to 15% of the issued and outstanding Fixed Shares and Floating Shares of the Company. As of December 31, 2021, the Company had 10,932 shares authorized and available for grant under the Plan.

Restricted Share Units ("RSUs")

	Fixed Shares		**Floating Shares**	
Restricted Share Units (Fair value information expressed in whole dollars)	**RSUs**	**Weighted Average Grand Date Fair Value**	**RSUs**	**Weighted Average Grand Date Fair Value**
Unvested, January 1, 2021	5,119	$ 9.24	2,688	$ 7.83
Granted	993	$ 3.02	385	$ 2.57
Forfeited	(496)	$ 3.79	(182)	$ 3.85
Vested	(2,428)	$ 10.35	(1,629)	$ 7.37
Unvested, December 31, 2021	**3,188**	$ 7.30	**1,262**	$ 7.39
Vested and unreleased(1)	130	$ 9.54	167	$ 4.39
Outstanding, December 31, 2021	**3,318**	$ 7.39	**1,429**	$ 7.04

(1) RSUs that are vested and unreleased represent RSUs that are pending delivery.

RSUs of the Company generally vest over a period of three years and RSUs granted to certain executives vest based on achievement of specific performance conditions. In certain situations for specified individuals, RSUs vest on an accelerated basis on separation. The fair value for RSUs is based on the Company's share price on the date of the grant. The Company recorded $16,012, $37,801, and $59,627 as *Equity-based compensation expense* on Consolidated Statements of Operations during the years ended December 31, 2021, 2020 and 2019, respectively. The fair value of RSUs vested during the years ended December 31, 2021 and 2020 was $15,917 and $10,779, respectively.

The total weighted average remaining contractual life and aggregate intrinsic value of unvested RSUs as of December 31, 2021 and was approximately 2 years and $6,737, respectively. Unrecognized compensation expense related to these awards at December 31, 2021 was $29,165 and is expected to be recognized over a weighted average period of approximately 2 years.

(in thousands, except per share data)

Stock options

Stock Options (Exercise price expressed in whole dollars)	Fixed Shares Options	Fixed Shares Weighted Average Exercise Price	Floating Shares Options	Floating Shares Weighted Average Exercise Price
Options outstanding, January 1, 2021	1,556	$ 11.18	1,818	$ 3.12
Granted	45	$ 6.28	636	$ 2.98
Forfeited	(72)	$ 10.39	(40)	$ 4.05
Options outstanding, December 31, 2021	**1,529**	$ 11.07	**2,414**	$ 3.06
Options exercisable, December 31, 2021	1,059	$ 14.22	1,702	$ 3.19

Stock options of the Company generally vest over a period of three years and options granted to certain executives vest based on achievement of specific performance conditions. Stock options of the Company have an expiration period of 5 or 10 years from the date of grant. The weighted average contractual life remaining for Fixed Share options outstanding and exercisable as of December 31, 2021 was approximately 6 and 7 years, respectively. The weighted average contractual life remaining for Floating Share options outstanding and exercisable as of December 31, 2021 was approximately 5 and 5 years, respectively. The Company recorded $3,934, $36,962 and $26,375 as *Equity-based compensation expense* on Consolidated Statements of Operations during the years ended December 31, 2021, 2020 and 2019, respectively, in connection with these awards.

As of December 31, 2021, unamortized expense related to stock options totaled $1,313 and is expected to be recognized over a weighted-average period of approximately 1 year. As of December 31, 2021, the aggregate intrinsic value for unvested options and for vested and exercisable options was nil, respectively.

The fair values of Subordinate Voting Share, Fixed Share and Floating Share options granted were calculated using a Black-Scholes model with the following assumptions:

Black-Scholes inputs	Year Ended December 31, 2019	January 1, 2020 to September 22, 2020	September 23, 2020 to December 31, 2020		Year Ended December 31, 2021	
	SVS	SVS	Fixed	Floating	Fixed	Floating
Weighted average grant date fair value range	$4.76 - $16.72	$3.79	$1.06 - $1.63	$0.92 - $1.06	$2.74 - $3.77	$0.26 - $1.55
Assumption ranges:						
Risk-free rate	1.50% - 2.60%	1.60%	0.20%	0.20%	0.60%	0.60% - 0.70%
Expected dividend yield	—%	—%	—%	—%	—%	—%
Expected term (in years)	6	6	3.25 - 3.5	2.5 - 3.5	3.5	3.50 - 4.08
Expected volatility	75% - 85%	75%	75%	75%	75%	65%

Volatility was estimated by using the average historical volatility of a representative peer group of publicly traded cannabis companies. The expected term represents the period of time the options are expected to be outstanding. The risk-free rate is based on U.S. Treasury bills with a remaining term equal to the expected term.

Equity-based compensation - other

HSCP C-1 Profits Interests Units ("Profits Interests")

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

The Company recorded $70 and $369 as *Equity-based compensation expense* on Consolidated Statements of Operations in connection with these awards during the years ended December 31, 2020 and 2019, respectively. The fair value of Profits Interests vested during the years ended December 31, 2020 and 2019 was $1,239 and $13,141, respectively. All of the Profits

Interests vested during the year ended December 31, 2020 and there were no unvested units or related equity-based compensation expense associated with the year ended December 31, 2021.

Restricted Shares ("RSs")

In connection with the Company's acquisition of Form Factory, 1,369 restricted shares with a grant date fair value of $20.45 were issued to former employees of Form Factory subject to future service conditions, which fully vest 24 months from the acquisition date. The fair value for RSs is based on the Company's share price on the date of the grant. In connection with these awards, the Company recorded equity-based compensation expense of $17,231 and $9,528 on Consolidated Statements of Operations during the years ended December 31, 2020 and 2019, respectively. There was no associated equity-based compensation expense related to RSs during the year ended December 31, 2021.

Employee settlement

During the year ended December 31, 2019, the Company issued 82 Subordinate Voting Shares and recognized $1,639 of equity-based compensation expense in settlement of post-employment expenses.

13. COMMITMENTS AND CONTINGENCIES

Commitments

The Company provides revolving lines of credit to several of its portfolio companies. As of December 31, 2021, our maximum obligation under these arrangements is $79,850. Refer to Note 6 for further discussion of the balance funded and outstanding.

Prior Plan of Arrangement with Canopy Growth

On June 19, 2019, the shareholders of the Company and of Canopy Growth separately approved the proposed plan of arrangement (the "Prior Plan of Arrangement") involving the two companies, and on June 21, 2019, the Supreme Court of British Columbia granted a final order approving the Prior Plan of Arrangement. Effective June 27, 2019, the articles of the Company were amended pursuant to the Prior Plan of Arrangement to provide that, upon the occurrence (or waiver by Canopy Growth) of the Triggering Event, subject to the satisfaction of the conditions set out in the arrangement agreement entered into between Acreage and Canopy Growth on April 18, 2019, as amended on May 15, 2019 (the "Original Arrangement Agreement"), Canopy Growth will acquire (the "Acquisition") all of the issued and outstanding shares in the capital of the Company (each, an "Acreage Share"). Under the terms of the Original Arrangement Agreement, holders of Acreage Shares and certain securities convertible or exchangeable into SVS as of the close of business on June 26, 2019, received approximately $2.63, being their pro rata portion (on an as converted to SVS basis) of $300,000 (the "Option Premium") paid by Canopy Growth.

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

Second Amendment to the Arrangement Agreement with Canopy Growth

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

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

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

Pursuant to the Amended Plan of Arrangement, upon the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event (the "Triggering Event Date"), Canopy Growth will, subject to the satisfaction or waiver of certain closing conditions set out in the Arrangement Agreement: (i) acquire all of the issued and outstanding Fixed Shares (following the mandatory conversion of the Fixed Multiple Shares into Fixed Shares) on the basis of 0.3048 of a common share of Canopy Growth (each whole common share, a "Canopy Growth Share") for each Fixed Share held (the "Fixed Exchange Ratio") at the time of the acquisition of the Fixed Shares (the "Acquisition Time"), subject to adjustment in accordance with the terms of the Amended Plan of Arrangement (the "Canopy Call Option"); and (ii) have the right (but not the obligation) (the "Floating Call Option"), exercisable for a period of 30 days following the Triggering Event Date to acquire all of the issued and outstanding Floating Shares at a price to be determined based upon the 30 day volume-weighted average trading price of the Floating Shares, subject to a minimum price of $6.41, as may be adjusted in accordance with the terms of the Amended Plan of Arrangement, to be payable, at the option of Canopy Growth, in cash, Canopy Growth Shares or a combination thereof. If any portion is paid in Canopy Growth Shares, the number of Canopy Growth Shares to be exchanged for each Floating Share shall be determined on the basis of a 30 day volume-weighted average calculation using the Floating Shares (the "Floating Ratio"). The closing of the acquisition of the Floating Shares pursuant to the Floating Call Option, if exercised, will take place concurrently with the closing of the acquisition of the Fixed Shares pursuant to the Canopy Call Option, if exercised. The Canopy Call Option and the Floating Call Option will expire 10 years from the Amendment Time.

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

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

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

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

Shares in connection with debt financing transactions that are otherwise in compliance with the terms of the Arrangement Agreement, as amended by the Amending Agreement; or (vi) pursuant to one private placement or public offering of securities during any one-year period for aggregate gross proceeds of up to $20,000, subject to specific limitations as set out in the Amending Agreement.

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

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

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

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

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

Debenture

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

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

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

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

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

Surety bonds

The Company has indemnification obligations with respect to surety bonds primarily used as security against non-performance in the amount of $5,000 as of December 31, 2021, 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, 2021 and 2020, such amounts were not material.

Contingencies

As of December 31, 2021, the Company has consulting fees payable in Fixed Shares and Floating Shares which are contingent upon successful acquisition of certain state cannabis licenses. The Company had maximum obligations of $8,750 and 238 Fixed Shares and 102 Floating Shares. No reserve for the contingencies has been recorded as of December 31, 2021.

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company's applicable subsidiaries ceasing operations. While management of the Company believes that the Company's subsidiaries is in compliance with applicable local and state regulations as of December 31, 2021, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company’s subsidiaries may be subject to regulatory fines, penalties, or restrictions in the future.

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

New York outstanding litigation

On November 2, 2018, EPMMNY LLC (“EPMMNY”) filed a complaint in the Supreme Court of the State of New York, County of New York, asserting claims against 16 defendants, including NYCANNA, Impire State Holdings LLC, NY Medicinal Research & Caring, LLC (each, a wholly-owned subsidiary of High Street) and High Street. The Index Number for the action is 655480/2018. EPMMNY alleges that it was wrongfully deprived of a minority equity interest and management role in NYCANNA by its former partner, New Amsterdam Distributors, LLC, which attempted to directly or indirectly sell or transfer EPMMNY’s alleged interest in NYCANNA to other entities in 2016 and 2017, including Impire, NYMRC and High Street. EPMMNY alleges that it is entitled to the value of its alleged minority interest in NYCANNA or minority ownership in NYCANNA. EPMMNY also alleges that certain defendants misused its alleged intellectual property and/or services, improperly solicited its employees, and aided and abetted or participated in the transfer of equity and/or business opportunities from EPMMNY. High Street intends to vigorously defend this action, which the Company firmly believes is without merit. EPMMNY alleges that it was improperly deprived of its equity stake in NYCANNA before NYCANNA was acquired by High Street. High Street is also entitled to full indemnity from the claims asserted against it by EPMMNY pursuant to the purchase agreement pertaining to its acquisition of NYCANNA and personal guarantee by the largest shareholders of the seller. The defendants filed a motion to dismiss on April 1, 2019. The motion was fully briefed and submitted to the Court on July 18, 2019, and oral argument was heard on September 6, 2019. The motion remains pending before the Court. A Special Referee hearing relating to the motion to dismiss has been re-scheduled for May 2022. 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 court’s decision.

CanWell Dispute

The CanWell dispute is comprised of six 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.

Compass Neuroceuticals Litigation

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 seeking approximately $1,000, plus attorney's fees and costs. Compass has filed a counterclaim for breach in the $9,000 range. A final arbitration hearing took place in Atlanta from September 20 to September 23, 2021, and an interim relief award was awarded in Acreage Georgia's favor on December 13, 2021. A subsequent hearing took place on February 9, 2022 to determine the amount of damages and attorney's fees to which Acreage Georgia is entitled as the prevailing party. The parties are awaiting the arbitrator's final decision.

14. RELATED PARTY TRANSACTIONS

Transactions with related parties are entered into in the normal course of business and are measured at the amount established and agreed to by the parties.

Related party notes receivable
Acreage has certain outstanding notes receivable with related parties. Refer to Note 6 for further discussion.

In May 2021, the Company sold two secured promissory notes totaling $28,000 received from the sale of Acreage Florida to Viridescent for cash proceeds of approximately $26,000. Viridescent is an entity controlled by Kevin Murphy, the Chairman of the board of directors. Refer to Notes 3 and 6 for further discussion.

GreenAcreage
During the year ended December 31, 2019, the Company sold and subsequently leased back several of its capital assets in a transaction with GreenAcreage Real Estate ("GreenAcreage"). The subsequent leases met the criteria for finance leases, and as such, the transactions did not qualify for sale-leaseback treatment. In November 2020, the Company completed an exchange of all its equity interests in GreenAcreage and its equity method investment in the management company of GreenAcreage in exchange for land and a building previously accounted for as a failed sales-leaseback transaction.

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

6.10% Secured debenture due September 2030
As disclosed in Note 10, "6.10% Secured debenture due September 2030", on September 23, 2020, pursuant to the implementation of the Amended Arrangement, a subsidiary of Canopy Growth advanced gross proceeds of $50,000 (less transaction costs of approximately $4,025) to Universal Hemp, 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. Acreage then engaged an investment advisor (the "Investment Advisor") which, under the Investment Advisor's sole discretion, invested on behalf of Universal Hemp, $34,019 of the proceeds on September 28, 2020.

As a result, Universal Hemp, a subsidiary of the Company, acquired 34,019 class B units, at $1 par value per unit, which represented 100% financial interest in an Investment Partnership, a Canada-based limited partnership. An affiliate of the Institutional Investor holds Class A Units of the Investment Partnership. The general partner of the Investment Partnership is also an affiliate of the Institutional Investor. The class B units are held by the Institutional Investor as agent for Universal Hemp. On September 28, 2020, the Company received gross proceeds of $33,000 (less transaction costs of approximately $959) from an affiliate of the Institutional Lender (the "Lender") and used a portion of the proceeds of this loan to retire its short-term $11,000 convertible note and its short-term note aggregating approximately $18,000 in October 2020, with the remainder being used for working capital purposes. The Lender is controlled by the Institutional Lender. The Investment Partnership is the investor in the Lender.

Previous related party debt
In December 2019, Kevin Murphy, the Chairman of the board of directors, made a non-interest bearing loan of $15,000 to Acreage. In January 2020, Mr. Murphy made an additional non-interest bearing loan of $5,000 to Acreage. These amounts were subsequently repaid in March 2020.

In October 2020, Kevin Murphy made an interest bearing loan of $2,100 to the Company, bearing interest at 9.9% per annum. This amount was subsequently repaid in November 2020.

Michigan consulting agreement
Pursuant to the Consulting Services Agreement by and between Kevin Michigan, LLC, a company controlled by Kevin Murphy, and High Street (the "Michigan Consulting Agreement"), High Street provides certain consulting services to Kevin Michigan, LLC, which includes, but is not limited to, services related to application support, provisioning center administration and operation, local and state regulatory filings, human resource matters, and marketing matters. The Michigan Consulting Agreement explicitly states that High Street is not able to direct or control the business of Kevin Michigan, LLC. Additionally, there are certain leases held by and between Kevin Michigan, LLC, as lessee and certain wholly owned subsidiaries of High Street, as lessors. As of December 31, 2021, Kevin Michigan, LLC is not operational, and no consulting fees or rents has been paid to High Street or its wholly owned subsidiaries. Kevin Michigan, LLC is owned and controlled by the Company's Chairman, Kevin Murphy.

3.55% Credit facilities due June 2021 and March 2022
On March 11, 2020, the Company closed $22,000 in borrowings pursuant to a loan transaction with the Lender. The maturity date is 366 days from the closing date of the loan transaction. The Company will pay monthly interest on the collateral in the form of 27 SVS through the maturity date. The Lender may put any unsold interest shares to the Company upon maturity at a price of $4.50 per share. Kevin Murphy, the Chairman of the board of directors, loaned $21,000 of the $22,000 borrowed by the Company to the Lender. The loan is secured by the non-U.S. intellectual property assets, a cannabis state license and 12,000 SVS shares of the Company. Refer to Note 10 for further discussion.

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

On March 7, 2021, the Company extended the maturity date related to the $22,000 in borrowings with the Lender to March 31, 2021. On March 29, 2021, the Company further extended the maturity date of Mr. Murphy's tranche of the loan transaction, which is $21,000 of the $22,000 aggregate amount of the loan transaction, to June 30, 2021. Mr. Murphy's tranche of the loan transaction was subsequently repaid in June 2021.

9.75% Credit facilities due January 2026
On December 16, 2021, the Company entered into the 9.75% Credit facilities due January 2026 with a syndicate of lenders, including Viridescent Realty Trust, Inc. ("Viridescent"), an entity controlled by Kevin Murphy. Under the terms of the 9.75% Credit facilities due January 2026, a $75,000 initial draw was available immediately, an additional $25,000 delayed draw is available that must be advanced within 12 months, and a $50,000 committed accordion facility is available after December 1, 2022, provided certain financial covenants are met. Advances under the facilities bear interest at 9.75% per annum and undrawn amounts (excluding the committed accordion facility until it is available) bear interest at 3.0% per annum.

Viridescent has committed $30,000 of the $100,000 available for immediate use under the Credit Facility, with third-party syndicated affiliates committing the additional $70,000. During the year ended December 31, 2021, $108 of interest expense under the facilities was attributed to Viridescent. The loan is secured by first-lien mortgages on Acreage's wholly owned real estate and other commercial security interests. A third-party syndicate served as Administrative Agent for the transaction.

(in thousands, except per share data)

15. INCOME TAXES

The domestic and foreign components of loss before income taxes for the years ended December 31, 2021, 2020 and 2019 are as follows:

	Year Ended December 31,		
	2021	2020	2019
Domestic	$ (56,959)	$ (376,905)	$ (190,173)
Foreign	1,607	(453)	—
Loss before income taxes	**$ (55,352)**	**$ (377,358)**	**$ (190,173)**

The provision for income taxes for the years ended December 31, 2021, 2020 and 2019 are as follows:

Income tax provision	Year Ended December 31,		
	2021	2020	2019
Current taxes:			
Federal	$ 18,992	$ 10,375	$ 6,351
State	7,541	4,790	2,482
Total current	**26,533**	**15,165**	**8,833**
Deferred taxes:			
Federal	(5,955)	(21,173)	(2,625)
State	(2,773)	(11,232)	(1,219)
Total deferred	**(8,728)**	**(32,405)**	**(3,844)**
Total income tax provision (benefit)	**$ 17,805**	**$ (17,240)**	**$ 4,989**

The table below reconciles the expected statutory federal income tax to the actual income tax provision (benefit):

Tax provision reconciliation	Year Ended December 31, 2021		Year Ended December 31, 2020		Year Ended December 31, 2019	
	$	%	$	%	$	%
Computed expected federal income tax benefit	**$ (11,624)**	**21.0 %**	**$ (79,245)**	**21.0 %**	**$ (39,936)**	**21.0 %**
Increase (decrease) in income taxes resulting from:						
State taxes	(6,119)	11.1	(35,715)	9.5	(20,151)	10.6
Nondeductible permanent items	31,521	(57.0)	76,128	(20.2)	49,231	(25.9)
Pass-through entities & non-controlling interests	5,080	(9.2)	20,001	(5.3)	13,465	(7.1)
Increase in valuation allowance	(209)	0.4	1,518	(0.4)	1,816	(1.0)
Other	(844)	1.5	73	—	564	(0.2)
Actual income tax provision (benefit)	**$ 17,805**	**(32.2)%**	**$ (17,240)**	**4.6 %**	**$ 4,989**	**(2.6)%**

The following table presents a reconciliation of gross unrecognized tax benefits:

Unrecognized tax benefits	Year Ended December 31,		
	2021	2020	2019
Balance at beginning of period	$ 7,719	$ 1,867	$ 1,394
Increase based on tax positions related to prior period	869	6,565	500
Decrease based on tax positions related to prior period	(877)	(574)	—
Decrease related to settlements with taxing authorities	(16)	(139)	(27)
Balance at end of period	**$ 7,695**	**$ 7,719**	**$ 1,867**

(in thousands, except per share data)

Interest and penalties related to unrecognized tax benefits are recorded as components of the provision for income taxes. As of December 31, 2021 and 2020, the Company had interest accrued of approximately $524 and $506, respectively. Accrued interest and penalties are included in *Other current liabilities* in the Consolidated Statements of Financial Position.

The principal components of deferred taxes as of December 31, 2021 and 2020 are as follows:

Deferred taxes	**December 31, 2021**	**December 31, 2020**
Deferred tax assets:		
Net operating/capital loss carryforwards	$ 11,242	$ 2,786
Other	3,298	697
Total deferred tax assets	14,540	3,483
Valuation allowance	(14,540)	(3,483)
Net deferred tax asset	**—**	**—**
Deferred tax liabilities:		
Partnership basis difference	(27,082)	(34,673)
Net deferred tax liability	**(27,082)**	**(34,673)**
Net deferred tax liabilities	**$ (27,082)**	**$ (34,673)**

The Company assesses available positive and negative evidence to estimate if it is more likely than not to use certain jurisdiction-based deferred tax assets including net operating loss carryovers. On the basis of this assessment, a valuation allowance was recorded during the years ended December 31, 2021 and 2020.

As of December 31, 2021, the Company has $2,161 of domestic federal net operating loss carryovers with no expiration date. As of December 31, 2021, the Company has various state net operating loss carryovers that expire at different times, the earliest of which is 2023. The statute of limitations with respect to the Company's federal returns remains open for tax years 2018 and forward. For certain acquired subsidiaries, the federal statue remains open with respect to tax years 2014 and forward.

As the Company operates in the cannabis industry, it is subject to the limitations of IRC Section 280E, under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-deductible under IRC Section 280E. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

In connection with the RTO transaction, the Company entered into a tax receivable agreement with certain members of HSCP, who represent a portion of the NCI, in which it agreed to pay 65% of any realized tax benefits upon conversion of HSCP units into Subordinate Voting Shares to such members. In addition, 20% of any realized tax benefits will be paid to certain HSCP members pursuant to the Company's tax receivable bonus plan. The Company will retain the remaining 15% of the realized tax benefits.

On March 27, 2020, the CARES Act was enacted in response to COVID-19 pandemic. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period which the new legislation is enacted. The CARES Act made various tax law changes including among other things (i) increasing the limitation under Section 163(j) of the Internal Revenue Code of 1986, as amended (the "IRC") for 2020 and 2019 to permit additional expensing of interest (ii) enacting a technical correction so that qualified improvement property can be immediately expensed under IRC Section 168(k), (iii) making modifications to the federal net operating loss rules including permitting federal net operating losses incurred in 2020, 2019, and 2018 to be carried back to the five preceding taxable years in order to generate a refund of previously paid income taxes and (iv) enhancing the recoverability of alternative minimum tax credits. Given the Company is subject to 280E, the CARES Act did not have an impact on the financial statements.

(in thousands, except per share data)

16. REPORTABLE SEGMENTS

The Company prepares its segment reporting on the same basis that its Chief Operating Decision Maker manages the business, and makes operating decisions. The Company operates under one operating segment, which is its only reportable segment: the production and sale of cannabis products. The Company's measure of segment performance is net income, and derives its revenue primarily from the sale of cannabis products, as well as related management or consulting services which were not material in all periods presented. All of the Company's operations are located in the United States.

17. EARNINGS PER SHARE

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

Basic and diluted loss per share is as follows:

	Year Ended December 31,		
	2021	2020	2019
Net loss attributable to common shareholders of the Company	$ (63,010)	$ (286,588)	$ (150,268)
Weighted average shares outstanding - basic	105,087	97,981	86,185
Effect of dilutive securities	—	—	—
Weighted average shares - diluted	105,087	97,981	86,185
Net loss per share attributable to common shareholders of the Company - basic	$ (0.60)	$ (2.92)	$ (1.74)
Net loss per share attributable to common shareholders of the Company - diluted	$ (0.60)	$ (2.92)	$ (1.74)

During the year ended December 31, 2021, 5,817 Fixed warrants, 2,524 Floating warrants, 3,318 Fixed Share RSUs, 1,429 Floating Share RSUs, 1,529 Fixed Share stock options, 2,414 Floating Share stock options and 23,076 NCI convertible units were excluded from the calculation of net loss per share attributable to common shareholders of the Company - diluted, as they were anti-dilutive. During the year ended December 31, 2020, 7,131 Fixed warrants, 3,087 Floating warrants, 5,330 Fixed Share RSUs, 3,210 Floating Share RSUs, 1,556 Fixed Share stock options, 1,818 Floating Share stock options and 24,142 NCI convertible units were excluded from the calculation of net loss per share attributable to common shareholders of the Company - diluted, as they were anti-dilutive. During the year ended December 31, 2019, 2,040 SVS warrants, 7,843 SVS restricted share units, 5,608 SVS stock options, 25,035 NCI convertible units were excluded from the calculation of net loss per share attributable to common share attributable to common shareholders of the Company - diluted as they were anti-dilutive.

18. SUBSEQUENT EVENTS

On February 2, 2022, the Company authorized a liquidity event for Patient Centric Martha's Vineyard ("PCMV"), a subsidiary of the Company, for the purposes of raising the necessary funds to pay off the outstanding line of credit and accrued interest balance between PCMV and the Company. On February 10, 2022, the Company received the $5,279 cash payment in full, and closed the line of credit.

Management has reviewed all other events subsequent to December 31, 2021 through the date of issuing these financial statements and determined that no further subsequent events require adjustment or disclosure.

(in thousands, except per share data)

19. QUARTERLY FINANCIAL DATA (unaudited)

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
2021				
Total revenues, net	$ 38,393	$ 44,217	$ 48,151	$ 58,098
Gross profit	20,621	23,875	23,803	27,583
Net loss	(8,642)	(3,306)	(14,058)	(47,151)
Net loss attributable to Acreage	(7,809)	(2,553)	(12,297)	(40,351)
Net loss attributable to Acreage, basic and diluted	$ (0.08)	$ (0.02)	$ (0.12)	$ (0.38)
2020				
Total revenues, net	$ 24,225	$ 27,072	$ 31,742	$ 31,506
Gross profit	9,954	11,211	13,475	14,518
Net loss	(222,229)	(44,370)	(48,036)	(45,484)
Net loss attributable to Acreage	(171,954)	(37,192)	(40,548)	(36,895)
Net loss attributable to Acreage, basic and diluted	$ (1.85)	$ (0.38)	$ (0.41)	$ (0.36)