PART II

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

The Company has three classes of issued and outstanding shares: Class E subordinate voting shares ("Fixed Shares"), the Class D subordinate voting shares ("Floating Shares") and the Class F multiple voting shares. The Company's Fxied Shares and Floating Shares are listed on the Canadian Securities Exchange under the symbols "ACRG.A.U" and "ACRG.B.U", respectively, quoted on the OTCQX under the symbols "ACRHF" and "ACRDF", respectively, and traded on the Frankfurt Stock Exchange under the symbols "0VZ1" and "0VZ2", respectively.

Holders

As of March 4, 2022, there were 746 holders of record of the Fixed Shares and 746 holders of record of the Floating Shares, including CDS & Co. and Cede & Co., which are the nominees for holding shares on behalf of brokerage firms in Canada and the U.S., respectively, each as a single holder of record.

Item 6. Reserved.

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

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

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

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

- Overview—This section provides a general description of the Company's businesses, its strategic objectives, as well as developments that occurred during the years ended December 31, 2021 and 2020 that the Company believes are important in understanding its results of operations and financial condition or to disclose known trends.
- Results of Operations—This section provides an analysis of the Company's results of operations for the years ended December 31, 2021, 2020 and 2019. This analysis is presented on a consolidated basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.
- Liquidity and Capital Resources—This section provides an analysis of the Company's cash flows for the years ended December 31, 2021, 2020 and 2019, as well as a discussion on the Company's outstanding debt and commitments that existed as of December 31, 2021. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund the Company's future commitments and obligations, as well as a discussion of other financing arrangements.
- Critical Accounting Policies and Estimates—This section provides a summary of the estimates and assumptions management believes could have a significant impact on our financial statements. For a summary of our significant accounting policies, refer to Note 2 of the Consolidated Financial Statements for further discussion.

Overview

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

As of December 31, 2021, Acreage owned and operated a total of 27 dispensaries - 5 dispensaries in Oregon, 4 in New York, 3 in New Jersey, 3 in Connecticut, 2 in Massachusetts, 2 in Illinois, 5 in Ohio, and 3 in Maine. Acreage also operated 1 dispensary in Maine under a managed services agreement. As of December 31, 2021, Acreage owned and operated a total of 9 cultivation and processing facilities, 1 each in California, Illinois, Maine, Massachusetts, New Jersey, New York, Pennsylvania and 2 in Ohio.

Strategic Priorities

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

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

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

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

Highlights from the year ended December 31, 2021:

- The Company achieved total consolidated revenue growth of 65% as compared with the year ended December 31, 2020.
- Adjusted EBITDA for the year ended December 31, 2021 was $24.6 million compared to an adjusted EBITDA loss of $29.5 million during the same period in 2020. This marks the fourth consecutive quarter of positive adjusted EBITDA and the first fiscal year of positive adjusted EBITDA since the RTO transaction, further validating management's refocused strategic plan. Refer to section “Non-GAAP Information” in this Item 7 for discussion of Adjusted EBITDA as a non-GAAP measure.
- The Company secured a $150,000 senior secured credit facility, consisting of a $75,000 initial draw, a $25,000 delayed draw, and an additional $50,000 committed accordion facility.
- The Company completed the acquisition of 100% of Greenleaf Apothecaries, LLC, Greenleaf Therapeutics, LLC and Greenleaf Gardens, LLC, collectively “Greenleaf, an operator of cultivation, processing and retail facilities in Ohio, expanding the Company’s footprint into a strategic core state.
- The Company completed the acquisition of 100% of CWG Botanicals, Inc. (“CWG”), an adult-use cannabis cultivation and processing operations in the state of California.

- The Company completed the sale of its operations in Florida for aggregate proceeds of $60.0 million, furthering the Company's overall strategy to focus on core states. The proceeds from the sale, along with certain restricted cash, were used to strengthen the Company's balance sheet, including the reduction of external debt by $46.3 million.
- The Company completed the sale of Maryland Medicinal Research & Caring, LLC ("MMRC") for an aggregate sale price of $1.5 million, which is consistent with the Company's overall strategy to focus on its core states.
- Hurricane Ida caused extensive damage to the Company's cultivation facility located in Sewell, New Jersey, which was nearing the completion of its construction. As a result, the Company wrote off the value of the capital assets at the Sewell, New Jersey locations and incurred a one-time charge of $2.1 million, net of insurance proceeds.
- The Company opened its third New Jersey based The Botanist dispensary in Williamstown, New Jersey.
- The Company received an interim relief award in Acreage Georgia's favor during arbitration related to the Compass Neuroceuticals Litigation. A subsequent hearing occurred in February, 2022, and the company is waiting on the final determination of the award amount.
- 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 $6.5 million.
- The Company agreed to sell its dispensary in Powell, Oregon and its cultivation and processing facility in Medford, Oregon.
- The Company reached an agreement with Medterra CBD, LLC, one of the largest CBD companies in the industry, that will allow Acreage Holdings to tap into Medterra's innovation pipeline, high-quality CBD, and significant e-commerce platform for nationwide distribution of a suite of branded CBD products.

Highlights from the year ended December 31, 2020:

- We began adult-use sales at our dispensary in Illinois; the significantly increased sales have exceeded internal expectations. We also received zoning approval to open a dispensary in Chicago.
- The Company closed a refinancing transaction and conversion related to Northeast Patients Group, operating as WCM, a medical cannabis business in Maine, resulting in ownership of WCM by three Maine residents, as required by Maine law. In connection with the transaction, WCM converted from a non-profit corporation to a for-profit corporation.
- We received Cannabis Control Commission provisional approval for adult-use sales at The Botanist locations in Worcester and Shrewsbury, Massachusetts.
- We closed our acquisition of Acreage CCF New Jersey, LLC ("CCF"), a medical cannabis cultivator and dispenser in New Jersey.
- We opened a second adult-use dispensary in Illinois, ahead of schedule.
- On September 23, 2020, we entered into the Amended Arrangement with Canopy Growth. Pursuant to the Amended Arrangement, the Company's articles were amended to create the Class E subordinate voting shares (the "Fixed Shares"), Class D subordinate voting shares (the "Floating Shares") and the Class F multiple voting shares (the "Fixed Multiple Shares"), and the Company completed a capital reorganization (the "Capital Reorganization") pursuant to which each outstanding Class A subordinate voting share (the "SVS") was exchanged for 0.7 of a Fixed Share and 0.3 of a Floating Share, each outstanding Class B proportionate voting share (the "PVS") was exchanged for 28 Fixed Shares and 12 Floating Shares, and each outstanding Class C multiple voting share (the "MVS") was exchanged for 0.7 of a Fixed Multiple Share and 0.3 of a Floating Share. Refer to Note 13 of the Consolidated Financial Statements for further discussion.
- Pursuant to the Arrangement Agreement, upon the occurrence of a Triggering Event, Canopy Growth, will, subject to the satisfaction or waiver of certain closing conditions set out in the Arrangement Agreement: (i) acquire all of the issued and outstanding Fixed Shares (following the mandatory conversion of the Fixed Multiple Shares into Fixed Shares) on the basis of 0.3048 of a Canopy Growth Share for each Fixed Share held at the time of the acquisition of the Fixed Shares, subject to adjustment in accordance with the terms of the Amended Arrangement; and (ii) have the right (but not the obligation), exercisable for a period of 30 days following the Triggering Event Date to acquire all of the issued and outstanding Floating Shares. Upon exercise of the Floating Call Option, Canopy Growth may acquire

the Floating Shares for cash or for Canopy Growth Shares or a combination thereof, in Canopy Growth's sole discretion.

- We entered into various financing transactions and repayments during the year ended December 31, 2020.
- COVID-19 has had minimal impact on our overall performance but at some locations there has been some impact to our day-to-day operations.

Operational and Regulation Overview

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

COVID-19

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

In response to the outbreak, governmental authorities in the United States, Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place and social distancing. The COVID-19 outbreak and the response of governmental authorities to try to limit it are having a significant impact on the private sector and individuals, including unprecedented business, employment and economic disruptions. Management has been closely monitoring the impact of COVID-19, with a focus in the health and safety of our employees, business continuity and supporting our communities. We have implemented various measures to reduce the spread of the virus, including implementing social distancing measures at our cultivation facilities, manufacturing facilities, and dispensaries, enhancing cleaning protocols at such facilities and dispensaries and encouraging employees to adhere to preventative measures recommended by local, state, and federal health officials.

Aside from minimal impact to our day-to-day operations at select locations, COVID-19 has had an immaterial impact overall on our Company's performance as key performance metrics are trending positively, including, but not limited to, significant improvements to net revenue and net loss as well as positive adjusted EBITDA results for the first time since completion of the reverse takeover transaction.

Results of Operations

The following table presents selected financial data derived from the consolidated financial statements of the Company for the years ended December 31, 2021, 2020 and 2019. The selected financial information set out below may not be indicative of the Company's future performance.

Summary Results of Operations

in thousands, except per share amounts	Year Ended December 31,			Better/(Worse) 2021 vs. 2020		Better/(Worse) 2020 vs. 2019	
	2021	2020	2019	$	%	$	%
Revenues, net	$ 188,859	$ 114,545	$ 74,109	$ 74,314	65 %	$ 40,436	55 %
Net operating loss	(47,071)	(364,811)	(191,444)	317,740	87	(173,367)	(91)
Net loss attributable to Acreage	(63,010)	(286,588)	(150,268)	223,578	78	(136,320)	(91)
Basic and diluted loss per share attributable to Acreage	$ (0.60)	$ (2.92)	$ (1.74)	$ 2.32	79 %	$ (1.18)	(68)%

Revenues, Cost of goods sold and Gross profit

The Company derives its revenues from sales of cannabis and cannabis-infused products through retail dispensary, wholesale and manufacturing and cultivation businesses, as well as from management or consulting fees from entities for whom the Company provides management or consulting services.

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

in thousands	Year Ended December 31,			Better/(Worse) 2021 vs. 2020		Better/(Worse) 2020 vs. 2019	
	2021	2020	2019	$	%	$	%
Retail revenue, net	$ 127,306	$ 86,380	$ 54,401	$ 40,926	47 %	$ 31,979	59 %
Wholesale revenue, net	58,183	27,971	18,539	30,212	108	9,432	51
Other revenue, net	3,370	194	1,169	3,176	n/m	(975)	(83)
Total revenues, net	$ 188,859	$ 114,545	$ 74,109	$ 74,314	65 %	$ 40,436	55 %
Cost of goods sold, retail	(65,776)	(51,018)	(33,844)	(14,758)	(29)	(17,174)	(51)
Cost of goods sold, wholesale	(27,201)	(14,369)	(9,821)	(12,832)	(89)	(4,548)	(46)
Total cost of goods sold	$ (92,977)	$ (65,387)	$ (43,665)	$ (27,590)	(42)%	$ (21,722)	(50)%
Gross profit	$ 95,882	$ 49,158	$ 30,444	$ 46,724	95 %	$ 18,714	61 %
Gross margin	51 %	43 %	41 %		8 %		2 %

n/m - Not Meaningful

Year ended December 31, 2021 vs. 2020

Total revenues for the year ended December 31, 2021 grew by $74,314, or 65%, compared with 2020. On a comparative basis, total revenue increased by $37,320 due to the acquisitions of (i) CCF in June 2020, (ii) certain Maine operations (iii) CWG in May 2021 and (iv) Greenleaf Ohio in October 2021 and was offset by decreases of $2,071 due to the divestitures/closures of (i) Maryland Medicinal Research & Caring, LLC and Acreage North Dakota, LLC in May 2020, (ii) Form Factory in March 2020 and (iii) Acreage Florida in April 2021. Additionally, total revenues for the year ended December 31, 2021 for the Company's operations in Oregon, which are considered non-core and are being held for sale, decreased by $3,721 as compared to fiscal 2020. Excluding these acquisitions and divestitures/closures and the impact of total revenue declines in the Company's Oregon operations, total revenue increased by $42,786, or 42%, for the year ended December 31, 2021, as compared to fiscal 2020.

Retail revenue for the year ended December 31, 2021 grew by $40,926, or 47%, compared with 2020. Excluding the impact of acquisitions and divestitures/closures, retail revenue increased by $11,497 for the year ended December 31, 2021 compared to fiscal 2020. This organic growth was primarily driven by increased demand and production across various states, and new store openings and was partially offset by retail revenue declines of $3,337 in non core states (Oregon).

Wholesale revenue for the year ended December 31, 2021 grew by $30,212, or 108%, compared to fiscal 2020. The increased wholesale revenue was primarily due to increased capacity, coupled with maturing operations at the Company's Pennsylvania, Massachusetts, and Illinois cultivation facilities. This resulted in higher yields and product mix in each of the respective markets. Additionally, wholesale revenue for the year ended December 31, 2021 increased by $6,196 due to acquisitions that have occurred over the prior 24 months.

Finally, total revenue for the year ended December 31, 2021 included $3,370 of management fees in New Hampshire, a portion of which related to prior fiscal periods. Refer to Note 3 in the Consolidated Financial Statements for further discussion on acquisitions, divestitures, assets held-for-sale.

Retail cost of goods sold $14,758, or 29%, for 2021 compared to 2020, which was outpaced by the 47% increase in retail revenue. The lower rate of growth for retail cost of goods sold was due to the increased vertical integration of the Company's operations. A greater portion of the product sold at the Company's retail dispensaries is sourced internally from the Company's cultivation and processing operations. Cost of goods sold for this internally produced product does not contain the wholesale margin that would be paid if the Company had to source that same product from external vendors.

Wholesale cost of goods sold increased $12,832, or 89%, for 2021 compared to 2020, which was outpaced by the 108% increase in wholesale revenue. While wholesale cost of goods sold increased due to the volume increase associated with the wholesale revenue growth, the rate of growth was lower as a result of production efficiencies being achieved. In addition, wholesale cost of goods sold for the comparative period were driven by the initial set up costs and consequential expansion impact of various cultivation facilities that was not as significant in the current period.

Gross profit increased from $49,158 in 2020 to $95,882 in 2021, or 95%, and Gross margin increased from 43% of revenue in 2020 to 51% of revenue in 2021, or 8%, due to the factors discussed above.

Year ended December 31, 2020 vs. 2019

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

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

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

The increase in gross profit was driven by the factors discussed above. Gross margin for the year ended December 31, 2020 was 43%, compared to 41% for the year ended December 31, 2019.

Revenue by geography

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

Revenue by region in thousands	**Year Ended December 31,**			**Better/(Worse) 2021 vs. 2020**		**Better/(Worse) 2020 vs. 2019**	
	2021	2020	2019	$	%	$	%
New England	$ 73,925	$ 48,325	$ 36,875	$ 25,600	53 %	$ 11,450	31 %
Mid-Atlantic	58,869	37,300	19,797	21,569	58	17,503	88
Midwest	43,764	17,347	6,839	26,417	152	10,508	154
West	11,680	10,206	10,598	1,474	14	(392)	(4)
South	621	1,367	—	(746)	(55)	1,367	n/m
Total revenues, net	$ 188,859	$ 114,545	$ 74,109	$ 74,314	65 %	$ 40,436	55 %

n/m - Not Meaningful

Total operating expenses

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

Operating expenses				**Better/(Worse)**		**Better/(Worse)**	
in thousands	**Year Ended December 31,**			**2021 vs. 2020**		**2020 vs. 2019**	
	2021	2020	2019	$	%	$	%
General and administrative	$ 32,026	$ 50,469	$ 56,224	$ 18,443	37 %	$ 5,755	10 %
Compensation expense	45,769	41,704	42,061	(4,065)	(10)	357	1
Equity-based compensation expense	19,946	92,064	97,538	72,118	78	5,474	6
Marketing	1,643	1,820	5,009	177	10	3,189	64
Impairments, net	32,828	188,023	13,463	155,195	83	(174,560)	n/m
Loss on notes receivable	7,869	8,161	—	292	4	(8,161)	n/m
(Recovery) write down of assets held-for-sale	(8,616)	11,003	—	19,619	n/m	(11,003)	n/m
Loss on legal settlements	372	14,555	—	14,183	97	(14,555)	n/m
Depreciation and amortization	11,116	6,170	7,593	(4,946)	(80)	1,423	19
Total operating expenses	$ 142,953	$ 413,969	$ 221,888	$ 271,016	65 %	$ (192,081)	(87)%

n/m - Not Meaningful

Year ended December 31, 2021 vs. 2020

Total operating expenses for the year ended December 31, 2021 were $142,953, a decrease of $271,016, or 65%, compared with 2020. The primary drivers of the decrease in operating expenses were as follows:

- General and administrative expenses decreased $18,443 during the year ended December 31, 2021 compared with 2020, primarily due to a reduction of legal fees as well as rental and lease expense of $8,665 and $2,732, respectively.

- Compensation expense increased $4,065 during the year ended December 31, 2021 as compared with 2020, primarily due to increased headcount required to manage the Company's expanded operations, including the acquisitions of certain Maine operations, CWG, and Greenleaf during the period, partially offset by reorganization efforts and divestitures during the current and prior periods.

- Equity-based compensation expense decreased $72,118, or 78%, during the year ended December 31, 2021 as compared with 2020, primarily due to benefits associated with reorganization efforts undertaken in prior periods, resulting in the acceleration of restricted share vesting for certain employees and previously issued awards becoming fully vested and cancelled in prior periods.

- Impairments, net of $32,828 for the year ended December 31, 2021 was primarily driven by $26,601 and $995 in write-offs and write-downs on abandoned intangible and capital assets and the related deferred tax liabilities, respectively, associated with entities previously held-for-sale, $2,130 in write-offs, net of insurance proceeds, related to capital assets at the Sewell, New Jersey locations damaged by Hurricane Ida, $2,284 in losses on the disposal of capital assets during the period, and $817 associated the revision of the management contract with Prime Alternative Treatment Center Consulting, LLC ("PATCC").

- The loss on notes receivable of $7,869 for the year ended December 31, 2021 is driven by the determination that payment for certain notes receivables is doubtful based on the most recent information available to the Company. For such notes, a provision was established against them, resulting in the losses recognized.

- During the year ended December 31, 2020, the Company determined certain businesses and assets met the held-for-sale criteria. In accordance with ASC 360-10, *Property, Plant and Equipment*, the assessed disposal groups for such assets held-for-sale were written down to fair value less costs to sell, resulting in the recognition of a charges. During the year ended December 31, 2021, the Company sold Acreage Florida, and determined that the fair value less costs to sell of its Acreage Florida disposal group increased $8,616 in excess of its previously written down value. Accordingly, the Company recognized a recovery of assets held-for-sale related to its Acreage Florida disposal group. Refer to Note 3 in the Consolidated Financial Statements for further discussion of the divestiture.

- During the year ended December 31, 2020, the Company recorded a charge of $14,555 due to the recognition of litigation accruals for various matters. No such provision was required for the year ended December 31, 2021.

- Depreciation and amortization expenses increased $4,946 during the year ended December 31, 2021 compared with 2020, primarily due to an acceleration of the amortization of certain intangible assets as a result of a reduction in the expected useful lives of such assets.

Year ended December 31, 2020 vs. 2019

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

Total other income (loss)

Other income (loss) in thousands	**Year Ended December 31,**			**Better/(Worse) 2021 vs. 2020**		**Better/(Worse) 2020 vs. 2019**	
	2021	2020	2019	$	%	$	%
Income (loss) from investments, net	$ (3,549)	$ 98	$ (480)	$ (3,647)	n/m	$ 578	n/m
Interest income from loans receivable	4,824	6,695	3,978	(1,871)	(28)	2,717	68
Interest expense	(19,964)	(15,853)	(1,194)	(4,111)	(26)	(14,659)	n/m
Other income (loss), net	10,408	(3,487)	(1,033)	13,895	n/m	(2,454)	(238)
Total other (loss) income	$ (8,281)	$ (12,547)	$ 1,271	$ 4,266	34 %	$ (13,818)	n/m
n/m - Not Meaningful							

Year ended December 31, 2021 vs. 2020

Total other loss for the year ended December 31, 2021 was $8,281, a decrease of $4,266, or 34%, compared with 2020. The primary drivers of the decrease in Total other loss were as follows:

- Loss from investments, net of $3,549 for the year ended December 31, 2021 was primarily due to declines in the fair market value of investments in entities where the Company does not have significant influence or control.

- Interest income from loans receivable of $4,824 for the year ended December 31, 2021 has declined $1,871 as compared with 2020 due to a reduction in loans receivable outstanding during the period.

- Interest expense, net of $19,964 increased $4,111 during the year ended December 31, 2021 as compared with 2020, primarily due to the Company's increased debt financing transactions, partially related to ongoing construction projects, and the Company's refinancing of debt in December, 2021, partially offset by reduced rates of interest on the Company's debt obligations for the year ended December 31, 2021.

- Other income for the year ended December 31, 2021 of $10,408 included a gain on the sale of Acreage Florida of $11,682, which was partially offset by a net loss of approximately $2,000 on the subsequent sale of notes receivable received as consideration from the buyer of Acreage Florida.

Year ended December 31, 2020 vs. 2019

Income from investments, net increased during the year ended December 31, 2020, compared to the corresponding prior period, primarily due to increased ownership interest resulting from the internalization of GreenAcreage Real Estate ("GreenAcreage") as well as the mark-to-market fluctuations in our portfolio. This increase is partially offset by the impact of the equity method investment described in Note 5 of the Consolidated Financial Statements, as well as the absence of treasury bills during the year ended December 31, 2020. Interest expense increased during the year ended December 31, 2020, compared to the corresponding prior period, primarily due to the effects of increased financing transactions as well as the Company's failed sale-leaseback transactions. Interest income from loans receivable increased during the year ended December 31, 2020, compared to the corresponding prior period, as our amount of outstanding loans increased. The increase in Other loss, net was primarily driven by losses from asset sales and disposals partially offset by gains on certain capital assets sold and exchanged (refer to Note 7 of the Consolidated Financial Statements for further discussion) during the year ended December 31, 2020.

Net loss

Net loss in thousands	**Year Ended December 31,**			**Better/(Worse)** **2021 vs. 2020**		**Better/(Worse)** **2020 vs. 2019**	
	2021	2020	2019	$	%	$	%
Net loss	$ (73,157)	$ (360,118)	$ (195,162)	$ 286,961	80 %	$ (164,956)	(85)%
Less: net loss attributable to non-controlling interests	$ (10,147)	$ (73,530)	$ (44,894)	$ 63,383	86	(28,636)	(64)
Net loss attributable to Acreage Holdings, Inc.	$ (63,010)	$ (286,588)	$ (150,268)	$ 223,578	78 %	$ (136,320)	(91)%
n/m - Not Meaningful							

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

Non-GAAP Information

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

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

Adjusted EBITDA				**Better/(Worse)**		**Better/(Worse)**	
in thousands	**Year Ended December 31,**			**2021 vs. 2020**		**2020 vs. 2019**	
	2021	2020	2019	$	%	$	%
Net loss (U.S. GAAP)	**$ (73,157)**	**$ (360,118)**	**$ (195,162)**				
Income tax expense (benefit)	17,805	(17,240)	4,989				
Interest (income) expense, net	15,140	9,158	(2,784)				
Depreciation and amortization[(1)]	14,276	6,170	7,593				
EBITDA (non-GAAP)	**$ (25,936)**	**$ (362,030)**	**$ (185,364)**	**$ 336,094**	**93 %**	**$ (176,666)**	**95 %**
Adjusting items:							
Loss (income) from investments, net	3,549	(98)	480				
Impairments, net	30,698	188,023	13,463				
Loss on Sewell facility	2,130	—	—				
Loss on notes receivable	7,869	8,161	—				
Write down (recovery) of assets held-for-sale	(8,616)	11,003	—				
Equity-based compensation expense	19,946	92,064	97,538				
Legal settlements, net	372	14,555	—				
Gain on business divestiture	(11,802)	—	—				
Transaction costs	—	3,114	—				
Other non-recurring expenses	6,428	15,701	15,004				
Adjusted EBITDA (non-GAAP)	**$ 24,638**	**$ (29,507)**	**$ (58,879)**	**$ 54,145**	**n/m**	**$ 29,372**	**(50)%**
n/m - Not Meaningful							

(1) Depreciation and amortization as of December 31, 2021 contains depreciation and amortization included in cost of goods sold.

The increases in adjusted EBITDA are driven by the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources and uses of cash

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

The Company's significant financing transactions for the year ended December 31, 2021 are as follows:

- In March 2021, the Company extended the maturity date related to $21,000 of the $22,000 aggregate amount of the 3.55% Credit facilities to June 30, 2021.
- In June 2021, the Company repaid the 3.55% credit facility of $21,000 and the 3.55% credit facility collateral (related party) of $22,000 after securing a maturity date extension in March 2021. Certain cash proceeds from the sale of Acreage Florida, including the proceeds from the sale of the notes receivable received from the buyer of Acreage Florida as consideration, and the Company's restricted cash were used to repay these debt obligations.
- In December 2021, the Company entered into a $150,000 senior secured credit facility (the "9.75% Credit facilities due January 2026") 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.

Refer to Note 10 of the Consolidated Financial Statements for further discussion of debt-related activity.

As of December 31, 2021, the Company had cash of $43,180 (not including $1,098 of restricted cash or $223 of cash held for sale within current *Assets held-for-sale* on the consolidated statements of financial position). The Company's ability to fund its operations, capital expenditures, acquisitions, and other obligations depends on its future operating performance and ability to obtain financing, which are subject to prevailing economic conditions, as well as financial, business and other factors, some of which are beyond the Company's control.

The Company's future contractual obligations include the following:

Leases

As of December 31, 2021, the Company had future operating lease obligations and future finance lease obligations of $43,724 and $16,208, respectively, with $4,892 and $701 payable within 12 months, respectively. 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. Refer to Note 8 of the Consolidated Financial Statements for further discussion.

Debt

As of December 31, 2021, the Company had outstanding debt with varying maturities for an aggregate principal amount of $170,734, with 1,583 payable within 12 months. The Company has related future interest payments of $68,368, with $15,531 payable within 12 months. Refer to Note 10 of the Consolidated Financial Statements for further discussion.

The Company expects that its total readily available funds of $68,180 at December 31, 2021, including cash on hand of $43,180 and the undrawn $25,000 delayed draw term loan, coupled with its cash flows from operations and its ability to obtain private and/or public financing, will be adequate to support the future obligations discussed above as well as the capital needs of the existing operations and expansion plans over the next twelve months. While the Company's liquidity risk has increased since its RTO transaction as a result of the Company's rapid growth and continued expansion, which resulted in negative operating cash flow for the year ended December 31, 2021, we believe we have alleviated the risk (Refer to Item 7A - "*Liquidity Risk*").

Cash flows

Cash and cash equivalents, restricted cash, and cash held for sale were $44,501 as of December 31, 2021, a decrease of $10,138 from December 31, 2020. The following table details the change in cash, cash equivalents, restricted cash and cash related to assets held for sale for the years ended December 31, 2021, 2020 and 2019.

Cash flows				**Better/(Worse)**		**Better/(Worse)**	
in thousands	**Year Ended December 31,**			**2021 vs. 2020**		**2020 vs. 2019**	
	2021	2020	2019	$	%	$	%
Net cash used in operating activities	$ (40,530)	$ (67,678)	$ (70,879)	$ 27,148	40 %	$ 3,201	5 %
Net cash provided by (used in) investing activities	43,369	(69,302)	(14,609)	112,671	n/m	(54,693)	(374)
Net cash provided by (used in) financing activities	(12,977)	165,019	7,050	(177,996)	n/m	157,969	n/m
Net increase (decrease) in cash, cash equivalents, restricted cash, and cash held for sale	$ (10,138)	$ 28,039	$ (78,438)	$ (38,177)	n/m	$ 106,477	n/m

n/m - Not Meaningful

Net cash used in operating activities

During the year ended December 31, 2021, the Company used $40,530 of net cash in operating activities, which represents a reduction of $27,148, or 40%, when compared with 2020. Excluding non-cash items such as impairments, equity based compensation, write-offs, gains and losses on disposals and depreciation and amortization in the net operating income (loss), this improved operating income was a result of revenue increases exceeding increases in costs of goods sold, which was underscored by a decrease in non-cash expenditures. Additionally, the cash used in operating activity during the year ended December 31, 2021 included cash used to fund increases in working capital due to the expanded operations.

Cash used in operating activities were relatively flat during the year ended December 31, 2020, as compared with 2019. The cash used in operating activities during the years ended December 31, 2020 and 2019 were driven primarily by general and administrative and equity-based compensation expenses.

Net cash provided by (used in) investing activities

During the year ended December 31, 2021, the Company provided $43,369 of net cash through investing activities. This represented an improvement of $112,671 when compared with 2020. Cash provided by investing activities during the year ended December 31, 2021 primarily consisted of (i) $54,607 of proceeds from divestitures and the related sales of promissory notes (refer to Notes 3 and 6 of the Consolidated Financial Statements for further discussion), (ii) $14,033 of proceeds from the collection of notes receivable (refer to Note 6 of the Consolidated Financial Statements for further discussion), and (iii) $7,000 of insurance proceeds related to recoveries associated with the damage caused by Hurricane Ida to the Company's Sewell, New Jersey cultivation facility (refer to Note 7 of the Consolidated Financial Statements for further discussion) and was partially offset by $33,249 spent on capital expenditures to build out the Company's owned operations.

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

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

Net cash provided by (used in) financing activities

During the year ended December 31, 2021, the Company used $12,977 of net cash in financing activities. This represented a decrease of $177,996 when compared with 2020. Cash used in financing activities during the year ended December 31, 2021 was primarily driven by the repayment of debt of $91,039 and was partially offset by $81,407 related to financing proceeds (refer to Note 10 of the Consolidated Financial Statements for further discussion).

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

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

Capital Resources

Capital structure and debt

Our debt outstanding as of December 31, 2021 and 2020 is as follows:

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**

Commitments and contingencies

Commitments

The Company provides revolving lines of credit to several of its portfolio companies. Refer to Note 6 of the Consolidated Financial Statements for further discussion.

In connection with the CanWell settlement discussed in Note 13 of the Consolidated Financial Statements, the Company issued a promissory note in the amount of $7,750, which is non-interest bearing and is payable in periodic payments through December 31, 2024.

Definitive agreements

During the year ended December 31, 2021, 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 $6.5 million. This sale is expected to close in 2022.

During the year ended December 31, 2021, the Company entered into a definitive agreement to sell, upon regulatory approval, one retail dispensary and one inactive cultivation facility in Oregon for total consideration of $3.0 million. This sale is expected to close in 2022.

Canopy Growth

On June 19, 2019, the shareholders of the Company and of Canopy Growth Corporation ("Canopy Growth") separately approved the arrangement between the two companies, and on June 21, 2019, the Supreme Court of British Columbia granted a final order approving the arrangement. Effective June 27, 2019, the Articles of the Company were amended to provide Canopy Growth with the option (the "Canopy Growth Call Option") to acquire all of the issued and outstanding shares of the Company (each, an "Acreage Share"), with a requirement to do so upon a change in federal laws in the United States to permit the general cultivation, distribution and possession of marijuana (as defined in the relevant legislation) or to remove the regulation of such activities from the federal laws of the United States, subject to the satisfaction of the conditions set out in the arrangement agreement entered into between Acreage and Canopy Growth on April 18, 2019, as amended on May 15, 2019 (the "Original Arrangement Agreement").

On June 24, 2020, we entered into a proposal agreement (the "Proposal Agreement") with Canopy Growth which set out the terms and conditions upon which us and Canopy Growth were proposing to enter into an amending agreement (the "Amending Agreement"), as further amended on September 23, 2020 (the "Arrangement Agreement") and the amendment and restatement of the plan of arrangement implemented by us on June 24, 2019 (the "Amended Plan of Arrangement") to implement the arrangement contemplated in the Arrangement Agreement (the "Amended Arrangement"). The effectiveness of the Amending Agreement and the implementation of the Amended Plan of Arrangement was subject to the conditions set out in the Proposal Agreement, which included, among others, approval by: (i) the Supreme Court of British Columbia (the "Court") at a hearing upon the procedural and substantive fairness of the terms and conditions of the Amended Arrangement; and (ii) our shareholders, as required by applicable corporate and securities laws. The Amended Arrangement was approved by our shareholders at our special meeting held on September 16, 2020 and a final order approving the Amended Arrangement was obtained from the Court on September 18, 2020.

Following the satisfaction of various conditions set forth in the Proposal Agreement, on September 23, 2020, we entered into the Amending Agreement with Canopy Growth and implemented the Amended Plan of Arrangement effective at 12:01 a.m. (Vancouver time) (the "Amendment Time") on September 23, 2020 (the "Amendment Date").

Pursuant to the Amended Plan of Arrangement, among other things, Canopy Growth made a cash payment of $37.5 million (the "Aggregate Amendment Option Payment"), to our shareholders and certain holders of securities convertible or exchangeable into our shares. Holders of our then outstanding Class A subordinate voting shares (the "SVS"), Class B proportionate voting shares (the "PVS"), Class C multiple voting shares (the "MVS"), and certain other parties, received approximately $0.30 per SVS, being their pro rata portion (on an as-converted to SVS basis) of the Aggregate Amendment Option Payment, based on the number of our outstanding shares and certain holders of securities convertible or exchangeable into our shares, as of the close of business on September 22, 2020, the record date for payment of the Aggregate Amendment Option Payment. The Aggregate Amendment Option Payment was distributed to such holders of record on or about September 25, 2020.

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

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

As a condition to implementation of the Amended Arrangement, an affiliate of Canopy Growth advanced the first tranche of $50 million of a loan of up to $100 million (the "Hempco Loan") to Universal Hemp, LLC, an affiliate of the Company that operates solely in the hemp industry in full compliance with all applicable laws ("Universal Hemp") pursuant to a secured debenture (the "Debenture") bearing interest at a rate of 6.1% per annum and maturing 10 years from the date thereof. All interest payments made pursuant to the Debenture are payable in cash by Universal Hemp. The Debenture is not convertible and is not guaranteed by Acreage. A further $50 million advance will be made available upon satisfaction of specified conditions precedent. In accordance with the terms of the Debenture, the funds cannot be used, directly or indirectly, in connection with or for any cannabis or cannabis-related operations in the United States, unless and until such operations comply with all applicable laws of the United States. Refer to Note 10 of the Consolidated Financial Statements for further discussion.

Pursuant to the Amended Plan of Arrangement, upon the occurrence, or waiver (at the discretion of Canopy Growth), of a change in federal laws in the United States to permit the general cultivation, distribution and possession of marijuana (as defined in the relevant legislation) or to remove the regulation of such activities from the federal laws of the United States (the "Triggering Event" and the date on which the Triggering Event occurs, the "Triggering Event Date"), Canopy Growth, will, subject to the satisfaction or waiver of certain closing conditions set out in the Arrangement Agreement: (i) acquire all of the issued and outstanding Fixed Shares (following the mandatory conversion of the Fixed Multiple Shares into Fixed Shares) on the basis of 0.3048 (the "Fixed Exchange Ratio") of a common share of Canopy Growth (each, a "Canopy Growth Share") for each Fixed Share held at the time of the acquisition of the Fixed Shares (the "Acquisition Time"), subject to adjustment in accordance with the terms of the Amended Plan of Arrangement (the "Canopy Call Option"); and (ii) have the right (but not the obligation) (the "Floating Call Option"), exercisable for a period of 30 days following the Triggering Event Date to acquire all of the issued and outstanding Floating Shares. Upon exercise of the Floating Call Option, Canopy Growth may acquire the Floating Shares for cash or for Canopy Growth Shares or a combination thereof, in Canopy Growth's sole discretion. If paid in cash, the price per Floating Share shall be equal to the volume-weighted average trading price of the Floating Shares on the CSE (or other recognized stock exchange on which the Floating Shares are primarily traded as determined by volume) for the 30 trading day period prior to the exercise (or deemed exercise) of the Canopy Call Option, subject to a minimum amount of $6.41 (the "Floating Cash Consideration"). If paid in Canopy Growth Shares, each Floating Share will be exchanged for a number of Canopy Growth Shares equal to (i) the volume-weighted average trading price of the Floating Shares on the CSE (or other recognized stock exchange on which the Floating Shares are primarily traded as determined by volume) for the 30 trading day period prior to the exercise (or deemed exercise) of the Canopy Call Option, subject to a minimum amount of $6.41, divided by (ii) the volume-weighted average trading price (expressed in US$) of the Canopy Growth Shares on the New York Stock Exchange (the "NYSE") (or such other recognized stock exchange on which the Canopy Growth Shares are primarily traded if not then traded on the NYSE) for the 30 trading day period immediately prior to the exercise (or deemed exercise) of the Canopy Call Option (the "Floating Ratio"). The Canopy Call Option and the Floating Call Option will expire 10 years from the Amendment Time.

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

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

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

The Amending Agreement also provides that Acreage may issue a maximum of 32,700,000 shares (or convertible securities in proportion to the foregoing), which will include (i) 3,700,000 Floating Shares which are to be issued solely in connection with the exercise of stock options granted to Acreage management (the “Option Shares”); (ii) 8,700,000 Floating Shares other than the Option Shares; and (iii) 20,300,000 Fixed Shares, without a revision to the Fixed Exchange Ratio. Notwithstanding the foregoing, the Amending Agreement provides that Acreage may not issue any equity securities, without Canopy Growth’s prior consent, other than: (i) upon the exercise or conversion of convertible securities outstanding as of the Amendment Date; (ii) contractual commitments existing as of the Amendment Date; (iii) the Option Shares; (iv) the issuance of up to $3.0 million worth of Fixed Shares pursuant to an at-the-market offering to be completed no more than four times during any one-year period; (v) the issuance of up to 500,000 Fixed Shares in connection with debt financing transactions that are otherwise in compliance with the terms of the Arrangement Agreement, as amended by the Amending Agreement; or (vi) pursuant to one private placement or public offering of securities during any one-year period for aggregate gross proceeds of up to $20.0 million, subject to specific limitations as set out in the Amending Agreement.

Pursuant to the Amending Agreement, Acreage agreed to submit an Approved Business Plan to Canopy Growth which contains annual revenue and earnings targets for each of Acreage’s fiscal years ending on December 31, 2020 to December 31, 2029 (the “Initial Business Plan”). A number of factors may cause Acreage to fail to meet the Pro-Forma Net Revenue Targets or the Consolidated Adj. EBITDA Targets set forth in the Initial Business Plan. Refer to “*Risk Factors*”. In the event that Acreage has not satisfied: (i) 90% of the Pro-Forma Net Revenue Target or the Consolidated Adj. EBITDA Target set forth in the Initial Business Plan, measured on a quarterly basis, an Interim Failure to Perform will occur and certain Austerity Measures shall become applicable. For the year ended December 31, 2021, the Company exceeded the 90% threshold for both the Pro-Forma Net Revenue Target and the Consolidated Adj. EBITDA Target set forth in the Initial Business Plan.

Surety bonds

The Company has indemnification obligations with respect to surety bonds primarily used as security against non-performance in the amount of $5,000 as of December 31, 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.

<u>Contingencies</u>

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 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.

EPMMNY

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

Compass Neuroceuticals

In February 2021, a JAMS arbitration was initiated in Atlanta by Acreage Georgia LLC ("Acreage Georgia") against its former consultant, Compass Neuroceuticals, Inc. ("Compass"), stemming from Compass' breach of the consulting agreement entered into between the parties in June 2019, related to the preparation of an application for a Class 1 cultivation license in Georgia. Acreage Georgia is 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 occurred 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.

Critical accounting policies and estimates

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

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

Taxes

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

Business combinations

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

Inventory valuation

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 valuation of our inventory balances involves calculating the estimated net realizable value of our inventory and assessing it against the cost. A component of this analysis therefore involves determining whether there is excess, slow-moving or obsolete inventory on hand.

When determining whether there is excess, slow-moving or obsolete inventory, management makes assumptions around future demand and production forecasts, which are then compared to current inventory levels. Management also makes assumptions around future pricing, and considers historical experience and the application of the specific identification method for identifying obsolete inventory.

If the assumptions around future demand for our inventory are more optimistic than actual future results, the net realizable value calculated using these assumptions may be overstated, resulting in an overstatement of the inventory balance.

Impairment on notes receivable

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

Impairment of intangible assets

Goodwill and indefinite-lived intangible assets are not subject to amortization and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. Finite-lived intangible assets and other long-lived assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

As of December 31, 2021, our goodwill held at our single reportable segment was $43,310.

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

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

Management assigned value to each input based on past experience and industry expectations. The tests performed through the year ended December 31, 2021 resulted in the impairment of certain finite and indefinite-lived intangible assets. Refer to Note 4 of the Consolidated Financial Statements for further discussion. The Company does not believe a slight change in the key assumptions would cause the recoverable amount of any non-impaired reporting unit to fall below its carrying amount.

Assets held for sale and liabilities related to assets held for sale

The Company classifies long-lived assets or disposal groups as held for sale in the period when the following held for sale criteria are met: (i) the Company commits to a plan to sell; (ii) the long-lived asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such long-lived assets or disposal groups; (iii) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (iv) the sale is probable within one year; (v) the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (vi) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. In accordance with ASC 360-10, *Property, Plant and Equipment*, long-lived assets and disposal groups classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

During the year ended December 31, 2021, management determined certain businesses and assets met the held-for-sale criteria. Upon classification of the disposal groups as held for sale, the Company tested each disposal group for impairment and recognized charges of $(8,616) for the year ended December 31, 2021 to write the disposal groups down to its fair value less costs to sell. Additionally, all assets and liabilities determined within these disposal groups were transferred into *Assets held-for-sale* and *Liabilities related to assets held for sale* on the Consolidated Statements of Financial Position. Refer to Note 3 of the Consolidated Financial Statements for further discussion. The Company's determination of businesses and assets which meet the held-for-criteria, including the process of estimating the fair value measurements pursuant to ASC 820, *Fair Value Measurements*, requires the use of significant judgements and estimates. Such assets did not meet the criteria for reporting as discontinued operations.

Emerging growth company status

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to use this exemption from new or revised accounting standards and, therefore, we will be not subject to the same new or revised accounting standards as other public companies that have made this election.

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

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

Equity-based compensation

We determine our equity-based compensation in accordance with ASC 718, Compensation—Stock Compensation (ASC 718), which requires the measurement and recognition of compensation expense for all equity-based awards made to employees based on the grant date fair value of the award.

Determining the appropriate fair value model and calculating the fair value of equity-based requires the input of subjective assumptions. We use the Black-Scholes option pricing model to value our equity-based awards. Equity-based compensation expense is calculated using our best estimates, which involve inherent uncertainties and the application of management's judgment. Significant estimates include our expected volatility. If different estimates and assumptions had been used, our equity-based award valuations could be significantly different and related equity-based compensation expense may be materially impacted.

The Black-Scholes option pricing model relies on key inputs such as the risk-free interest rate used, the expected term of awards, the expected volatility of our share price, and our expected dividend yield. If key inputs differ, the fair value of awards will be impacted. A higher fair value of the awards will result in higher share-based compensation expense over the vesting period of the awards. We have never paid and do not anticipate paying any cash dividends in the foreseeable future and, therefore, we use an expected dividend yield of zero in the pricing model, and we account for forfeitures as they occur.

Regulatory Disclosures

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) - *Issuers with U.S. Marijuana-Related Activities*, we have provided in Item 1 of this Form 10-K a discussion of the federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently involved, through High Street , in the cannabis industry. Refer to Item 1 - *Regulatory Framework* for further discussion.

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

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

Market risk

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

Credit risk

The Company's exposure to non-payment or non-performance by its counterparties is a credit risk. The maximum credit exposure as of December 31, 2021 is the carrying amount of cash and cash equivalents, restricted cash, and accounts, notes and other receivables. The Company does not have significant credit risk with respect to customers. The Company mitigates its credit risk on its notes and other receivables by securing collateral, such as capital assets, and by its review of the counterparties and their businesses. The Company considers a variety of factors when determining interest rates for notes receivable, including the creditworthiness of the counterparty, market interest rates prevailing at the note's origination, and duration and terms of the note. The Company determined expected credit losses to be immaterial due to collateral held. Analysis of collateral held and future expected cash flows within the cannabis industry were considered in its expected credit loss assessment.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company endeavors to ensure that there is sufficient liquidity in order to meet short-term business requirements, after taking into account the Company's cash holdings. As of December 31, 2021, the Company's financial liabilities consist of accounts payable and accrued liabilities, lease liabilities and long-term debt. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis.

As reflected in the Consolidated Financial Statements, the Company had an accumulated deficit and a negative net working capital (current liabilities greater than current assets) as of December 31, 2021, as well as a net loss and negative cash flow from operating activities for the reporting period then ended. These factors raise substantial doubt about the Company's ability to continue as a going concern for at least one year from the issuance of these financial statements.

However, management believes that substantial doubt of our ability to meet our obligations for the next twelve months from the date these financial statements were first made available has been alleviated due to, but not limited to, (i) access to future capital commitments, (ii) continued sales growth from 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 of the Consolidated Financial Statements for further discussion), and (vi) the anticipated Non-Core Divestitures (refer to Note 3 of the Consolidated Financial Statements for further discussion), as well as access to the U.S. public equity markets as a result of our current S-3 filing.

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 we will be successful in accomplishing any of our plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur at any time within the next twelve months or thereafter which could increase our need to raise additional capital on an immediate basis.

Asset forfeiture risk

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

Banking risk

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

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

Interest rate risk

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

Capital risk management

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach during the year ended December 31, 2021.

As reflected in the Consolidated Financial Statements, the Company had an accumulated deficit and a negative net working capital (current liabilities greater than current assets) as of December 31, 2019, as well as a net loss and negative cash used in operating activities for the year ended December 31, 2021. These factors raise substantial doubt about the Company's ability to continue as a going concern for at least one year from the issuance of these financial statements.

However, management believes that substantial doubt of our ability to meet our obligations for the next twelve months from the date these financial statements were first made available has been alleviated due to, but not limited to, (i) access to future capital commitments, (ii) continued sales growth from 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 of the Consolidated Financial Statements for further discussion), and (vi) the anticipated Non-Core Divestitures (refer to Note 3 of the Consolidated Financial Statements for further discussion), as well as access to the U.S. public equity markets as a result of our current S-3 filing.

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 we will be successful in accomplishing any of our plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur at any time within the next twelve months or thereafter which could increase our need to raise additional capital on an immediate basis.