

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to assist in the understanding and assessing the trends and significant changes in 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 of the Annual Report on Form 10-K for the year ended December 31, 2021 (the “2021 Form 10-K”), and “Cautionary Statement Regarding Forward-Looking Statements” set forth below.

This MD&A should be read in conjunction with the Company’s unaudited condensed consolidated financial statements for the three month period ended June 30, 2022 and related notes appearing elsewhere in this Quarterly Report on Form 10-Q (this “Quarterly Report” or “Form 10-Q”) and the 2021 Form 10-K. Financial information presented in this MD&A is presented in thousands of U.S. dollars, unless otherwise indicated.

Cautionary Statement Regarding Forward Looking-Statements

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

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

- the future implications to the business, financial results and performance of the Company arising, directly or indirectly, from COVID-19;
- the anticipated benefits of the Amended Arrangement with Canopy Growth;
- the occurrence or waiver of the Triggering Event, as defined below, the ability of Acreage to meet its performance targets and financial thresholds agreed upon with Canopy Growth as part of the Amended Arrangement;
- the likelihood of the Triggering Event occurring or being waived by the outside date;
- the likelihood of Canopy Growth completing the acquisition of the Fixed Shares and/or Floating Shares;
- risks related to the ability of the Company to finance its business and fund its obligations;
- other expectations and assumptions concerning the transactions contemplated between Canopy Growth and Acreage;
- the available funds of Acreage and the anticipated use of such funds;
- the availability of financing opportunities for Acreage and the risks associated with the completion thereof;
- regulatory and licensing risks;
- changes in general economic, business and political conditions, including changes in the financial and stock markets;
- risks related to infectious diseases, including the impacts of COVID-19;
- legal and regulatory risks inherent in the cannabis industry;
- risks associated with economic conditions, dependence on management and currency risk;
- risks relating to U.S. regulatory landscape and enforcement related to cannabis, including political risks;
- risks relating to anti-money laundering laws and regulation;
- risks relating to shortages in materials and increased costs for transportation, energy, and raw material due in part to the negative impact of the Russia-Ukraine war on the global economy;
- other governmental and environmental regulation;
- public opinion and perception of the cannabis industry;
- risks related to contracts with third-party service providers;
- risks related to the enforceability of contracts and lack of access to U.S. bankruptcy protections;
- reliance on the expertise and judgment of senior management of Acreage;
- risks related to proprietary intellectual property and potential infringement by third parties;

- the concentrated voting control of Acreage’s founder and the unpredictability caused by Acreage’s capital structure;
- risks relating to the management of growth;
- increasing competition in the industry;
- risks inherent in an agricultural business;
- risks relating to energy costs;
- risks associated with cannabis products manufactured for human consumption including potential product recalls;
- reliance on key inputs, suppliers and skilled labor;
- cybersecurity risks;
- ability and constraints on marketing products;
- fraudulent activity by employees, contractors and consultants;
- tax and insurance related risks;
- risks related to the economy generally;
- risk of litigation;
- conflicts of interest;
- risks relating to certain remedies being limited and the difficulty of enforcement judgments and effecting service outside of Canada;
- risks related to future acquisitions or dispositions;
- sales by existing shareholders; and
- limited research and data relating to cannabis.

A description of additional assumptions used to develop such forward-looking statements and a description of additional risk factors that may cause actual results to differ materially from forward-looking statements can be found in Part I, Item 1A of the Company’s Annual Report on Form 10-K, under the heading “Risk Factors”, dated March 11, 2022, as filed with the Securities and Exchange Commission. Although Acreage has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Readers are cautioned that the foregoing list of factors is not exhaustive. Readers are further cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are placed will occur. Forward-looking statements contained in this Form 10-Q are expressly qualified by this cautionary statement. The forward-looking statements contained in this Form 10-Q represent the expectations of Acreage as of the date of this Form 10-Q and, accordingly, are subject to change after such date. However, Acreage expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities law.

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

- Overview—This section provides a general description of the Company’s businesses, its strategic objectives, as well as developments that occurred during the three and six months ended June 30, 2022 and 2021 that the Company believes are important in understanding its results of operations and financial condition or to disclose known trends.
- Results of Operations—This section provides an analysis of the Company’s results of operations for the three and six months ended June 30, 2022 and 2021. This analysis is presented on a consolidated basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.
- Liquidity and Capital Resources—This section provides an analysis of the Company’s cash flows for the three and six months ended June 30, 2022 and 2021, as well as a discussion on the Company’s outstanding debt and commitments that existed as of June 30, 2022. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund the Company’s future commitments and obligations, as well as a discussion of other financing arrangements.

Overview

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

As of June 30, 2022, Acreage owned and operated a total of 27 dispensaries - 4 dispensaries in Oregon, 4 in New York, 3 in New Jersey, 3 in Connecticut, 2 in Massachusetts, 2 in Illinois, 5 in Ohio, and 4 in Maine. As of June 30, 2022, Acreage owned and operated a total of 9 cultivation and processing facilities, 1 each in California, Illinois, Maine, New Jersey, New York, Ohio and Pennsylvania, respectively, and 2 in Massachusetts.

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 - accelerating growth in its core markets, driving profitability, and strengthening the balance sheet.

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.

Driving Profitability: The Company's focus on improving operational and financial results has generally resulted in 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 additional debt or equity, or both, when it is necessary and advantageous to do so.

Highlights from the three and six months ended June 30, 2022:

- The Company achieved total consolidated revenue growth of 39% and 43% as compared with the three and six months ended June 30, 2021.
- Adjusted EBITDA for the three and six months ended June 30, 2022 was \$10.4 million and \$19.0 million, respectively, compared to adjusted EBITDA of \$8.1 million and \$9.7 million, respectively, during the same period in 2021. The Adjusted EBITDA for the second quarter of 2022 of \$10.4 million represents a record quarter for the Company. This also marks six consecutive quarters of positive adjusted EBITDA, further validating management's refocused strategic plan. Refer to section “Non-GAAP Information” in this Item 2 for discussion of Adjusted EBITDA as a non-GAAP measure.
- During the quarter, the Company completed the sale of its cultivation facility in Medford Oregon for total proceeds of \$2.0 million.
- During the quarter, the Company acquired and converted to adult use the final dispensary owned by our partner in Maine.
- On April 25, 2022, the Company commenced adult-use operations in New Jersey, offering a range of products from flagship brand The Botanist for adult-use sales.

Operational and Regulation Overview

The Company believes its operations are in material compliance with all applicable state and local laws, regulations and licensing requirements in the states in which it operates. However, cannabis is illegal under U.S. federal law. Substantially all of the Company's revenue is derived from U.S. cannabis operations. For information about risks related to U.S. cannabis operations, please refer to Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

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. The Company implemented various measures at the height of the pandemic to reduce the spread of the virus, such as implementing social distancing measures at its facilities. Most of these measures are no longer considered to be necessary or required; however, the Company reserves the right to implement similar precautionary measures in the future as circumstances change.

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.

Results of Operations

The following table presents selected financial data derived from the unaudited condensed consolidated financial statements of the Company for the three and six months ended June 30, 2022 and 2021. 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	Better/(Worse)				Better/(Worse)			
	Three Months Ended		2022 vs. 2021		Six Months Ended		2022 vs. 2021	
	June 30,				June 30,			
	2022	2021	\$	%	2022	2021	\$	%
Revenues, net	\$ 61,351	\$ 44,217	\$ 17,134	39 %	\$ 118,230	\$ 82,610	\$ 35,620	43 %
Net operating income (loss)	3,310	(6,757)	10,067	n/m	588	(4,950)	5,538	n/m
Net loss attributable to Acreage	(9,929)	(2,553)	(7,376)	(289)	(22,623)	(10,361)	(12,262)	(118)
Basic and diluted loss per share attributable to Acreage	\$ (0.09)	\$ (0.02)	\$ (0.07)	(350)%	\$ (0.21)	\$ (0.10)	\$ (0.11)	(110)%

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	Better/(Worse)				Better/(Worse)			
	Three Months Ended		2022 vs. 2021		Six Months Ended		2022 vs. 2021	
	June 30,				June 30,			
	2022	2021	\$	%	2022	2021	\$	%
Retail revenue, net	\$46,685	\$28,396	\$ 18,289	64 %	\$88,112	\$54,243	\$ 33,869	62 %
Wholesale revenue, net	14,360	15,541	(1,181)	(8)	29,532	25,557	3,975	16
Other revenue, net	306	280	26	9	586	2,810	(2,224)	(79)
Total revenues, net	\$61,351	\$44,217	\$ 17,134	39 %	\$118,230	\$82,610	\$ 35,620	43 %
Cost of goods sold, retail	(23,466)	(14,051)	(9,415)	(67)	(44,234)	(27,133)	(17,101)	(63)
Cost of goods sold, wholesale	(7,271)	(6,291)	(980)	(16)	(13,872)	(10,980)	(2,892)	(26)
Total cost of goods sold	\$(30,737)	\$(20,342)	\$ (10,395)	(51)%	\$(58,106)	\$(38,113)	\$ (19,993)	(52)%
Gross profit	\$30,614	\$23,875	\$ 6,739	28 %	\$60,124	\$44,497	\$ 15,627	35 %
Gross margin	50 %	54 %		(4)%	51 %	54 %		(3)%

n/m - Not Meaningful

Three months ended June 30, 2022 vs. 2021

Total revenues for the three months ended June 30, 2022 grew by \$17,134, or 39%, compared with 2021. On a comparative basis, total revenue increased by \$16,253 due to the acquisitions of (i) Greenleaf Ohio in October 2021, (ii) CWG in May 2021 and (iii) certain Maine operations and was offset by (i) a decrease of \$150 due to the divestiture of Acreage Florida in April 2021 and (ii) the non-recurrence of a bulk wholesale sale transaction of \$1,500 in the prior year comparable period. Additionally, total revenues for the three months ended June 30, 2022 for the Company's operations in Oregon, which are considered non-core and have been sold or are in the process of being sold, decreased by \$834 as compared to three months ended June 30, 2021. Excluding these acquisitions and divestitures/closures, the non-recurrence of the bulk wholesale sales transaction and the impact of total revenue declines in the Company's Oregon operations, total revenue increased by \$3,215, or 8%, for the three months ended June 30, 2022, as compared to fiscal 2021.

Retail revenue for the three months ended June 30, 2022 grew by \$18,289, or 64%, compared with 2021. Excluding the impact of acquisitions and divestitures/closures, retail revenue increased by \$2,791 or 10% for the three months ended June 30, 2022 compared to fiscal 2021. This organic growth was primarily driven by increased demand and production across various states and was partially offset by retail revenue declines of \$834 in non-core states (Oregon). Excluding the impact of revenue declines in the Company's Oregon dispensaries, retail revenue from comparative stores increased 14%. Overall, increased volumes more than offset price declines.

Wholesale revenue for the three months ended June 30, 2022 decreased by \$1,181, or 8%, compared to fiscal 2021. The decreased wholesale revenue was primarily due to price compression in select markets as well as the non-recurrence of a bulk wholesale sale transaction of \$1,500 in the prior year comparable period and was offset somewhat by the acquisitions of Greenleaf Ohio and CWG.

Retail cost of goods sold increased \$9,415, or 67%, for the three months ended June 30, 2022 compared to 2021, which was generally consistent with the 64% increase in retail revenue. Price compression in select markets was offset by cost efficiencies.

Wholesale cost of goods sold increased \$980, or 16%, for the three months ended June 30, 2022 compared to 2021, which outpaced the 8% increase in wholesale revenue. Wholesale cost of goods sold increased due to the volume increase associated with the wholesale revenue growth and due to overall costs increases related to general inflation.

Gross profit increased \$6,739, or 28%, for the three months ended June 30, 2022 to \$30,614 from \$23,875 in 2021. Gross margin decreased from 54% of revenue for the three months ended June 30, 2021 to 50% of revenue in 2022, or (4)%. Efficiencies gained from further economies of scale were unable to offset overall selling price declines and cost increases due to inflation.

Six months ended June 30, 2022 vs. 2021

Total revenues for the six months ended June 30, 2022 grew by \$35,620, or 43%, compared with 2021. On a comparative basis, total revenue increased by \$32,885 due to the acquisitions of (i) Greenleaf Ohio in October 2021, (ii) certain Maine operations and (iii) CWG in May 2021 and was offset by decreases of \$439 due to the divestiture of Acreage Florida in April 2021. Additionally, total revenues for the six months ended June 30, 2022 for the Company's operations in Oregon, which are considered non-core and have been sold or are in the process of being sold, decreased by \$1,455 as compared to fiscal 2021. Finally, total revenue for the prior comparative six months ended June 30, 2021 included (i) \$2,530 of previously unrecognized management fees in New Hampshire, some of which related to prior periods and (ii) a bulk wholesale sale transaction of \$1,500

that did not recur. Excluding these acquisitions and divestitures/closures, the impact of total revenue declines in the Company's Oregon operations and the non-recurring transactions for the six months ended June 30, 2021, total revenue increased by \$5,690, or 8%, for the six months ended June 30, 2022, as compared to fiscal 2021.

Retail revenue for the six months ended June 30, 2022 grew by \$33,869, or 62%, compared with 2021. Excluding the impact of acquisitions and divestitures/closures, retail revenue increased by \$3,605 for the six months ended June 30, 2022 compared to the six months ended 2021. This organic growth was primarily driven by increased demand and production across various states and was partially offset by retail revenue declines of \$1,455 in non-core states (Oregon).

Wholesale revenue for the six months ended June 30, 2022 grew by \$3,975, or 16%, compared to fiscal 2021. The increased wholesale revenue was primarily due to increased capacity, coupled with maturing operations at the Company's Pennsylvania and Illinois cultivation facilities. This resulted in higher yields and product mix in each of the respective markets. Additionally, wholesale revenue for the six months ended June 30, 2022 increased by \$2,621 due to acquisitions that have occurred over the prior 24 months which was somewhat offset by a bulk wholesale sale transaction of \$1,500 in the second quarter of 2021 that did not recur.

Retail cost of goods sold increased \$17,101, or 63%, for the six months ended June 30, 2022 compared to 2021, which was generally consistent with the 62% increase in retail revenue. Price compression in select markets was offset by cost efficiencies.

Wholesale cost of goods sold increased \$2,892, or 26%, for the six months ended June 30, 2022 compared to 2021, which outpaced by the 16% increase in wholesale revenue. Wholesale cost of goods sold increased due to the volume increase associated with the wholesale revenue growth and due to overall costs increases related to general inflation.

Gross profit increased \$15,627, or 35%, for the six months ended June 30, 2022 to \$60,124 from \$44,497 in 2021, and Gross margin decreased from 54% of revenue for the six months ended June 30, 2021 to 51% of revenue in 2022, or (3)%, due to the factors discussed above. Excluding other revenue which has no associated costs of goods sold, gross margin declined from 52% for the six months ended June 30, 2021 to 51% for the six months ended June 30, 2022. Efficiencies gained from further economies of scale were unable to offset overall selling price declines and cost increases due to inflation.

Revenue by geography

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

Revenue by region in thousands	Three Months Ended June 30,		Better/(Worse) 2022 vs. 2021		Six Months Ended June 30,		Better/(Worse) 2022 vs. 2021	
	2022	2021	\$	%	2022	2021	\$	%
New England	\$ 16,386	\$ 18,121	\$ (1,735)	(10)%	\$ 32,812	\$ 36,177	\$ (3,365)	(9)%
Mid-Atlantic	19,535	16,645	2,890	17	34,890	28,780	6,110	21
Midwest	23,794	6,449	17,345	269	46,963	12,321	34,642	281
West	1,636	2,852	(1,216)	(43)	3,565	4,711	(1,146)	(24)
South	—	150	(150)	(100)	—	621	(621)	(100)
Total revenues, net	\$ 61,351	\$ 44,217	\$ 17,134	39 %	\$ 118,230	\$ 82,610	\$ 35,620	43 %

n/m - Not Meaningful

Total operating expenses

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

Operating expenses in thousands	Three Months Ended June 30,		Better/(Worse) 2022 vs. 2021		Six Months Ended June 30,		Better/(Worse) 2022 vs. 2021	
	2022	2021	\$	%	2022	2021	\$	%
	General and administrative	\$ 8,922	\$ 5,384	\$ 3,538	66 %	\$ 17,309	\$ 14,602	\$ 2,707
Compensation expense	12,579	11,175	1,404	13	26,774	21,537	5,237	24
Equity-based compensation expense	1,655	6,981	(5,326)	(76)	5,814	13,023	(7,209)	(55)
Marketing	964	397	567	143	1,661	409	1,252	306
Impairments, net	329	—	329	n/m	2,467	818	1,649	202
Loss on notes receivable	—	1,726	(1,726)	n/m	—	1,726	(1,726)	n/m
Write down (recovery) of assets held-for-sale	—	—	—	n/m	874	(8,616)	9,490	n/m
Legal settlements (recoveries)	(310)	312	(622)	n/m	(335)	322	(657)	n/m
Depreciation and amortization	3,165	4,657	(1,492)	(32)	4,972	5,626	(654)	(12)
Total operating expenses	\$ 27,304	\$ 30,632	\$ (3,328)	(11)%	\$ 59,536	\$ 49,447	\$ 10,089	20 %

n/m - Not Meaningful

Three months ended June 30, 2022 vs. 2021

Total operating expenses for the three months ended June 30, 2022 were \$27,304, a decrease of \$3,328, or 11%, compared with 2021. The primary drivers of the decrease in operating expenses were as follows:

- General and administrative expenses increased \$3,538 during the three months ended June 30, 2022 compared with 2021, primarily due to (i) an increase in professional fees, which was driven by professional and consulting fees incurred, (ii) an increase in the cost of insurance and (iii) increased costs associated with the Company's expanded operations from both organic growth and acquisitions.
- Compensation expense increased \$1,404 during the three months ended June 30, 2022 as compared with 2021, 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.
- Equity-based compensation expense decreased \$5,326, or 76%, during the three months ended June 30, 2022 as compared with 2021, 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. Additionally, no annual grants were issued to employees under the Company's normal long-term incentive plan for the six months ended June 30, 2022.
- Loss on notes receivable for the three months ended June 30, 2021 is due to the determination that the payment for certain notes receivables was doubtful based on the most recent information available to the Company.
- Depreciation and amortization expenses decreased by \$1,492 during the three months ended June 30, 2022 compared with 2021, 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 during the three months ended June 30, 2021.

Six months ended June 30, 2022 vs. 2021

Total operating expenses for the six months ended June 30, 2022 were \$59,536, an increase of \$10,089, or 20%, compared with 2021. The primary drivers of the decrease in operating expenses were as follows:

- General and administrative expenses increased \$2,707 during the six months ended June 30, 2022 compared with 2021, primarily due to decreases in (i) professional fees, which was driven by professional and consulting fees incurred, (ii) an increase in the cost of insurance and (iii) increased costs associated with the Company's expanded operations from both organic growth and acquisitions.
- Compensation expense increased \$5,237 during the six months ended June 30, 2022 as compared with 2021, 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.
- Equity-based compensation expense decreased \$7,209, or 55%, during the six months ended June 30, 2022 as compared with 2021, 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. Additionally, no annual grants were issued to employees under the Company's normal long-term incentive plan for the six months ended June 30, 2022.

- Impairments, net increased \$1,649 for the six months ended June 30, 2022 was primarily driven by an impairment of \$1,907 related to certain Michigan locations during the six months ended June 30, 2022 as the Company was unsuccessful in finding a satisfactory buyer for these assets which were previously classified as held-for-sale.
- The loss on notes receivable for the six months ended June 30, 2021 is due to the determination that the payment for certain notes receivables were doubtful based on the most recent information available to the Company.
- Write down (recovery) of assets held-for-sale of \$874 for the six months ended June 30, 2022 related to the Company's Oregon operations, Write down (recovery) of assets held-for-sale of for the six months ended June 30, 2021 were due to a recovery that was attributable to the Company agreeing on terms to sell Acreage Florida, and determining that the fair value less costs to sell its Acreage Florida disposal group increased \$8,616 in excess of its previously written down value.

Total other income (loss)

Other income (loss) in thousands	Three Months Ended June 30,		Better/(Worse) 2022 vs. 2021		Six Months Ended June 30,		Better/(Worse) 2022 vs. 2021	
	2022	2021	\$	%	2022	2021	\$	%
	Income (loss) from investments, net	\$ (996)	\$ (1,122)	\$ 126	11	\$ 137	\$ (1,266)	\$ 1,403
Interest income from loans receivable	365	1,593	(1,228)	(77)	782	3,058	(2,276)	(74)
Interest expense	(5,520)	(5,595)	75	1	(10,301)	(10,452)	151	1
Other income, net	286	9,311	(9,025)	(97)	276	7,745	(7,469)	(96)
Total other income (loss)	\$ (5,865)	\$ 4,187	\$ (10,052)	n/m	\$ (9,106)	\$ (915)	\$ (8,191)	(895)%

n/m - Not Meaningful

Three months ended June 30, 2022 vs. 2021

Total other income (loss) for the three months ended June 30, 2022 was \$5,865, a decrease of \$10,052 compared with 2021. The primary drivers of the decrease in Total other income (loss) were as follows:

- Interest income from loans receivable of \$365 for the three months ended June 30, 2022 has declined \$1,228 as compared with 2021 due to a reduction in loans receivable outstanding during the comparative period.
- Other income, net for the three months ended June 30, 2022 of \$286 decreased by \$9,025 as compared with 2021. Other income, net for the three months ended June 30, 2021 was primarily related to a gain on the sale of Acreage Florida of \$11,682 and partially offset by the loss on the subsequent sale of notes receivable received as consideration from the buyer of Acreage Florida of approximately \$2,000.

Six months ended June 30, 2022 vs. 2021

Total other loss for the six months ended June 30, 2022 was \$9,106, a decrease of \$8,191 compared with 2021. The primary drivers of the decrease in Total other income (loss) were as follows:

- Income from investments, net of \$137 for the six months ended June 30, 2022 was primarily due to distributions received from certain investments of \$690 and was partially offset by decreases in the fair market value of investments in entities where the Company does not have significant influence or control of \$553.
- Interest income from loans receivable of \$782 for the six months ended June 30, 2022 has declined \$2,276 as compared with 2021 due to a reduction in loans receivable outstanding during the comparative period.
- Other income, net for the six months ended June 30, 2022 of \$276 decreased by \$7,469 as compared with 2021. Other income, net for the six months ended June 30, 2021 was primarily related to a gain on the sale of Acreage Florida of \$11,682 and was partially offset by the loss on the subsequent sale of notes receivable received as consideration from the buyer of Acreage Florida of approximately \$2,000 and by losses related to the disposal of capital assets related to Form Factory.

Net loss

Net loss in thousands	Three Months Ended June 30,		Better/(Worse) 2022 vs. 2021		Six Months Ended June 30,		Better/(Worse) 2022 vs. 2021	
	2022	2021	\$	%	2022	2021	\$	%
	Net loss	\$ (10,603)	\$ (3,306)	\$ (7,297)	(221)%	\$ (24,514)	\$ (11,947)	\$ (12,567)
Less: net loss attributable to non-controlling interests	(674)	(753)	79	10	\$ (1,891)	\$ (1,586)	\$ (305)	(19)
Net loss attributable to Acreage Holdings, Inc.	\$ (9,929)	\$ (2,553)	\$ (7,376)	(289)%	\$ (22,623)	\$ (10,361)	\$ (12,262)	(118)%
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 in thousands	Three Months Ended June 30,		Better/(Worse) 2022 vs. 2021		Six Months Ended June 30,		Better/(Worse) 2022 vs. 2021	
	2022	2021	\$	%	2022	2021	\$	%
	Net loss (U.S. GAAP)	\$ (10,603)	\$ (3,306)			\$ (24,514)	\$ (11,947)	
Income tax expense	8,048	736			15,996	6,082		
Interest expense, net	5,155	4,002			9,519	7,394		
Depreciation and amortization ⁽¹⁾	4,456	5,272			7,347	6,794		
EBITDA (non-GAAP)	\$ 7,056	\$ 6,704	\$ 352	5 %	\$ 8,348	\$ 8,323	\$ 25	— %
Adjusting items:								
Loss (income) from investments, net	996	1,122			(137)	1,266		
Impairments, net	134	—			2,090	818		
Loss on extraordinary events	194	—			376	—		
Loss on notes receivable	—	1,726			—	1,726		
Write down (recovery) of assets held-for-sale	—	—			874	(8,616)		
Legal settlements, net	(310)	312			(335)	322		
Gain on business divestiture	(292)	(11,682)			(296)	(11,682)		
Equity-based compensation expense	1,655	6,981			5,814	13,023		
Other non-recurring expenses ⁽²⁾	952	2,923			2,278	4,501		
Adjusted EBITDA (non-GAAP)	\$ 10,385	\$ 8,086	\$ 2,299	28 %	\$ 19,012	\$ 9,681	\$ 9,331	96 %
n/m - Not Meaningful								

⁽¹⁾ Depreciation and amortization as of June 30, 2021 contains depreciation and amortization included in cost of goods sold.

⁽²⁾ Other non-recurring expenses relates to certain compensation, general and administrative, and other miscellaneous expenses. The Company excludes these items as they are not expected to recur.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources and uses of cash

The Company's primary uses of capital include operating expenses, capital expenditures and the servicing of outstanding debt. The Company's primary sources of capital include funds generated by cannabis sales as well as financing activities. Through June 30, 2022, the Company had primarily used private financing as a source of liquidity for short-term working capital needs and general corporate purposes.

As of June 30, 2022, the Company had cash of \$29,235 (not including \$95 of restricted cash or \$234 of cash held for sale within current *Assets held-for-sale* on the Unaudited Condensed Consolidated Statements of Financial Position). As of June 30, 2022, the Company also had short-term investments of \$3,403 which can be readily be converted into cash. 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 June 30, 2022, the Company had future operating lease obligations and future finance lease obligations of \$36,977 and \$21,685, respectively, with \$2,249 and \$6,179 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 Unaudited Condensed Consolidated Statements of Financial Position and are expensed in the Unaudited Condensed 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 Unaudited Condensed Consolidated Financial Statements for further discussion.

Debt

As of June 30, 2022, the Company had outstanding debt with varying maturities for an aggregate principal amount of \$201,540, with \$6,571 payable within the remaining six months. The Company has related future interest payments of \$73,610, with \$8,267 payable within the remaining six months. Refer to Note 10 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

The Company expects that its total readily available funds of \$29,235 and its further 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. Refer to Note 2 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

Cash flows

Cash and cash equivalents, restricted cash, and cash held for sale were \$29,564 as of June 30, 2022, a decrease of \$14,937 from June 30, 2021. The following table details the change in cash, cash equivalents, restricted cash and cash related to assets held for sale for the six months ended June 30, 2022 and 2021.

Cash flows in thousands	Six Months Ended June 30,		Better/(Worse) 2022 vs. 2021	
	2022	2021	\$	%
Net cash used in operating activities	\$ (23,466)	\$ (21,038)	\$ (2,428)	(12)%
Net cash provided by (used in) investing activities	(9,488)	44,738	(54,226)	n/m
Net cash provided by (used in) financing activities	18,017	(40,505)	58,522	n/m
Net decrease in cash, cash equivalents, restricted cash, and cash held for sale	\$ (14,937)	\$ (16,805)	\$ 1,868	11

n/m - Not Meaningful

Net cash used in operating activities

During the six months ended June 30, 2022, the Company used \$23,466 of net cash in operating activities, which represented an increase of \$2,428, or 12%, when compared with 2021. Although the reported net loss increased during the six months ended June 30, 2022 when compared to the same period of 2021, the net loss excluding non-cash items such as impairments, equity based compensation, write-offs and recoveries, gains and losses on disposals and depreciation and amortization improved by \$7,607. This improvement was more than offset by an increase in the cash flow required to fund working capital, in particular an increase in inventories as a result of the expanded operations and decreases in accounts payable and accrued liabilities and income taxes payable.

Net cash provided by (used in) investing activities

During the six months ended June 30, 2022, the Company used \$9,488 of net cash through investing activities compared to \$44,738 of net cash provided by investing activities for the six months ended June 30, 2021, which represented a change of \$54,226. Net cash used in investing activities for the six months ended June 30, 2022 included (i) \$12,776 on the purchase of capital assets and intangibles, (ii) a \$5,999 net reduction in notes receivable and (iii) \$3,400 paid for short-term investments. Net cash provided by investing activities for the six months ended June 30, 2021 included (i) \$15,829 on the purchase of capital assets and intangibles, (ii) a \$8,825 net reduction in notes receivable and (iii) \$50,408 of proceeds from business divestitures, including the related sale of promissory notes.

Net cash provided by (used in) financing activities

During the six months ended June 30, 2022, the Company had \$18,017 of net cash provided by financing activities compared to \$40,505 of net cash used in financing activities for the six months ended June 30, 2021, which represented a change of \$58,522. Net cash provided by financing activities for the six months ended June 30, 2022 included (i) \$24,489 of net proceeds from financing, (ii) (\$938) of repayments of debt and (iii) (\$5,534) of capital distributions to non-controlling interest. Net cash used in financing activities for the six months ended June 30, 2021 included (i) \$3,565 of net proceeds from financing and (ii) (\$44,070) of repayments of debt.

Capital Resources

Capital structure and debt

Our debt outstanding as of June 30, 2022 and December 31, 2021 is as follows:

Debt balances	June 30, 2022	December 31, 2021
Financing liability (failed sale-leaseback)	\$ 15,253	\$ 15,253
Finance lease liabilities	11,052	5,245
7.50% Loan due April 2026	31,024	30,763
6.10% Secured debenture due September 2030	46,274	46,050
Note due December 2024	3,958	4,750
9.75% Credit facilities due January 2026	93,979	68,673
Total debt	\$ 201,540	\$ 170,734
Less: current portion of debt	7,363	1,583
Total long-term debt	\$ 194,177	\$ 169,151

Commitments and contingencies

Commitments

The Company provides revolving lines of credit to several third parties. Refer to Note 6 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

In connection with the CanWell settlement discussed in Note 13 of the Unaudited Condensed 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

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 ("Medford") and a retail dispensary in Powell, Oregon ("Powell"), for total consideration of \$3,000. In March 2022, the total consideration was reduced to \$2,000. During the six months ended June 30, 2022, the Company sold all equity interests in Medford for an aggregate sale price of \$2,000 and recognized a gain on sale of \$290 recorded in Other income, net in the Unaudited Condensed Consolidated Statements of Operations.

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 June 2022, the total consideration was reduced to \$6,200. This sale closed early in the third quarter of 2022.

Arrangement with Canopy Growth

On June 19, 2019, the shareholders of the Company and of Canopy Growth separately approved the Prior Plan of Arrangement involving the two companies. Subsequently, on September 23, 2020, Acreage and Canopy Growth entered into an amending agreement and the Amended Arrangement became effective on September 23, 2020. Refer to Note 13 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

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 June 30, 2022, for which no liabilities are recorded on the Unaudited Condensed Consolidated Statements of Financial Position.

The Company is subject to other capital commitments and similar obligations. As of June 30, 2022, such amounts were not material.

Contingencies

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 are in compliance with applicable local and state regulations as of June 30, 2022, 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. Refer to Note 13 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

Critical accounting policies and estimates

We have adopted various accounting policies to prepare the Unaudited Condensed Consolidated Financial Statements in accordance with GAAP. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. In our 2021 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements.

As of June 30, 2022 there have been no material changes to our critical accounting policies and estimates from those previously disclosed in our 2021 Annual Report on Form 10-K for the year ended December 31, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk (presented in thousands, except share amounts).

The Company has exposure to certain risks, including market, credit, liquidity, asset forfeiture, banking and interest rate risk, and assesses the impact and likelihood of those risks. However, there have been no material changes in our market risk during the three and six months ended June 30, 2022. For additional information, refer to our 2021 Annual Report on Form 10-K for the year ended December 31, 2021.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company's management, and due to the material weakness in internal controls over financial reporting described below, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were not effective for the period ending June 30, 2022 to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Inherent Limitations Over Internal Controls

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that the Company's internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In accordance with guidance issued by the SEC, companies are permitted to exclude acquisitions from their final assessment of internal control over financial reporting for the first fiscal year in which the acquisition occurred. Management, including the Chief Executive Officer and Chief Financial Officer, has limited the evaluation of the Company's internal controls over financial reporting to exclude controls, policies and procedures and internal controls over financial reporting of the recently acquired operations of:

- Greenleaf Apothecaries, Greenleaf Gardens, and Greenleaf Therapeutics, collectively "Greenleaf" (acquired October 1, 2021).

The operations of Greenleaf represents approximately 10% of the Company's total assets as of June 30, 2022 and 25% of the Company's gross revenue for the three and six months ended June 30, 2022.

Material Weaknesses in Internal Control Over Financial Reporting

A material weakness in internal controls over financial reporting is a deficiency, or a combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The review, testing and evaluation of key internal controls over financial reporting completed by the Company resulted in the Company's principal executive officer and principal financial officer concluding that as of June 30, 2022, a material weakness existed in the Company's internal controls over financial reporting. Specifically, as a result of turnover and the availability of resources with the appropriate level of technical capabilities (including the impacts on staffing and recruiting and the general global labor shortage brought about by the global COVID-19 pandemic), the Company did not have effective staffing levels and adequate segregation of duties within several finance and accounting processes. Further, and as a result of this material weakness, the Company's financial disclosures for the quarterly period ending June 30, 2021 incorrectly disclosed certain debt that was due 11 months after the balance sheet date as long-term rather than as current liabilities. Additionally, and as a result of this material weakness, the Company's financial disclosures for the quarterly and annual periods ended June 30, 2020, September 30, 2020, December 31, 2020, March 31, 2021, June 30, 2021, and September 30, 2021 incorrectly reported the weighted average shares outstanding which resulted in an incorrect determination of earnings per share and diluted earnings per share.

The Company has begun to address the material weakness described above through the following actions, which are expected to be completed by the fourth quarter of 2022:

- a. Engaging third-party consultants with appropriate expertise to assist the finance and accounting department on an interim basis until key roles are filled;
- b. Assessing finance and accounting resources to identify the areas and functions that lack sufficient personnel and recruiting for experienced personnel to assume these roles;
- c. Further centralization of key accounting processes to enable greater segregation of duties;
- d. Developing further training on segregation of duties; and
- e. Designing and implementing additional compensating controls where necessary.

The Company is working diligently to remediate this material weakness by hiring qualified and capable personnel. Further, we will continue to evaluate and assess the staffing needs of the Company as the landscape and needs of the Company continue to evolve. While we are working diligently to remediate this material weakness, there is no assurance that this material weakness will be fully remediated by the fourth quarter of 2022 given continuing lasting impacts of COVID-19 on staffing and labor for companies within our industry and otherwise.

Changes in Internal Control Over Financial Reporting

Other than the changes discussed above in connection with our implementation of the remediation plan, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act) that occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

For information on legal proceedings, refer to Note 13 to the Unaudited Condensed Consolidated Financial Statements included in this report.

Item 1A. Risk Factors.

There have been no material changes to the risk factors described in the section titled “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.