UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 000-56021

ACREAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

British Columbia, Canada	**98-1463868**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

366 Madison Ave, 14th floor	**New York**	**New York**	**10017**
(Address of Principal Executive Offices)			(Zip Code)

(646) 600-9181

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to section 12(g) of the Act: Class D Subordinate Voting Shares, no par value; Class E Subordinate Voting Shares, no par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The Company has three classes of issued and outstanding shares: the Class E subordinate voting shares (the “Fixed Shares”), the Class D subordinate voting shares (the “Floating Shares”) and the Class F multiple voting shares (the “Fixed Multiple Shares”). The Fixed Shares and Floating Shares each entitle the holders to notice of and to attend at any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company have the right to vote. Each Fixed Share is entitled to one vote per Fixed Share, each Floating Share is entitled to one vote per Floating Share and each Fixed Multiple Share is entitled to 4,300 votes per Fixed Multiple Share on all matters upon which the holders of shares are entitled to vote. As of November 2, 2022, there were 79,046,738 Fixed shares, 34,114,596 Floating Shares, and 117,600 Fixed Multiple Shares, in each case, issued and outstanding.

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Acreage Holdings, Inc.

Form 10-Q

For the Three and Nine Months Ended September 30, 2022

Item 1. Financial Statements and Supplementary Data.

ACREAGE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)	September 30, 2022	December 31, 2021
	(unaudited)	(audited)
ASSETS		
Cash and cash equivalents	$ 26,476	$ 43,180
Restricted cash	95	1,098
Accounts receivable, net	9,466	8,202
Inventory	50,892	41,804
Notes receivable, current	2,500	7,104
Assets held-for-sale	—	8,952
Other current assets	3,843	2,639
Total current assets	93,272	112,979
Long-term investments	34,328	35,226
Notes receivable, non-current	27,343	27,563
Capital assets, net	135,362	126,797
Operating lease right-of-use assets	22,730	24,598
Intangible assets, net	135,807	119,695
Goodwill	30,492	43,310
Other non-current assets	3,563	1,383
Total non-current assets	389,625	378,572
TOTAL ASSETS	$ 482,897	$ 491,551
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	$ 26,082	$ 23,861
Taxes payable	29,240	24,572
Interest payable	1,167	1,432
Operating lease liability, current	2,298	2,145
Debt, current	7,218	1,583
Non-refundable deposits on sale	—	1,000
Liabilities related to assets held for sale	—	1,867
Other current liabilities	10,500	10,333
Total current liabilities	76,505	66,793
Debt, non-current	194,874	169,151
Operating lease liability, non-current	22,324	24,255
Deferred tax liability	29,875	27,082
Other liabilities	1,125	—
Total non-current liabilities	248,198	220,488
TOTAL LIABILITIES	324,703	287,281

Commitments and contingencies		
Common stock, no par value - unlimited authorized, 112,147 and 106,903 issued and outstanding, respectively	—	—
Additional paid-in capital	761,684	756,536
Treasury stock, 842 common stock held in treasury	(21,054)	(21,054)
Accumulated deficit	(583,052)	(538,215)
Total Acreage Shareholders' equity	157,578	197,267
Non-controlling interests	616	7,003
TOTAL EQUITY	158,194	204,270
TOTAL LIABILITIES AND EQUITY	$ 482,897	$ 491,551

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share amounts)	2022	2021	2022	2021
REVENUE				
Retail revenue, net	$ 48,314	$ 30,795	$ 136,426	$ 85,038
Wholesale revenue, net	12,810	17,077	42,342	42,634
Other revenue, net	295	280	881	3,090
Total revenues, net	61,419	48,152	179,649	130,762
Cost of goods sold, retail	(26,097)	(16,279)	(70,331)	(43,412)
Cost of goods sold, wholesale	(14,096)	(8,069)	(27,968)	(19,049)
Total cost of goods sold	(40,193)	(24,348)	(98,299)	(62,461)
Gross profit	21,226	23,804	81,350	68,301
OPERATING EXPENSES				
General and administrative	9,727	8,465	27,036	23,067
Compensation expense	15,271	10,699	42,045	32,236
Equity-based compensation expense	3,156	4,168	8,970	17,191
Marketing	735	583	2,396	992
Impairments, net	506	2,339	2,973	3,157
Loss on notes receivable	7,219	—	7,219	1,726
Write down (recovery) of assets held-for-sale	—	—	874	(8,616)
Legal settlements (recoveries)	—	—	(335)	322
Depreciation and amortization	1,047	4,044	6,019	9,670
Total operating expenses	37,661	30,298	97,197	79,745
Net operating loss	$ (16,435)	$ (6,494)	$ (15,847)	$ (11,444)
Income (loss) from investments, net	17	489	154	(777)
Interest income from loans receivable	474	1,067	1,256	4,125
Interest expense	(5,688)	(3,620)	(15,989)	(14,072)
Other income, net	4,743	80	5,019	7,825
Total other income (loss)	(454)	(1,984)	(9,560)	(2,899)
Loss before income taxes	$ (16,889)	$ (8,478)	$ (25,407)	$ (14,343)
Income tax expense	(8,109)	(5,579)	(24,105)	(11,661)
Net loss	$ (24,998)	$ (14,057)	$ (49,512)	$ (26,004)
Less: net loss attributable to non-controlling interests	(2,784)	(1,761)	(4,675)	(3,347)
Net loss attributable to Acreage Holdings, Inc.	$ (22,214)	$ (12,296)	$ (44,837)	$ (22,657)
Net loss per share attributable to Acreage Holdings, Inc. - basic and diluted:	$ (0.20)	$ (0.12) [(1)]	$ (0.41)	$ (0.22) [(1)]
Weighted average shares outstanding - basic and diluted	111,200	106,332 [(1)]	108,795	104,524 [(1)]

[(1)] Presentation of September 30, 2021 figures have been revised.

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

			Attributable to shareholders of the parent					
(in thousands)	LLC Membership Units	Pubco Shares (as converted)	Share Capital	Treasury Stock	Accumulated Deficit	Shareholders' Equity	Non-controlling Interests	Total Equity
December 31, 2020	**3,861**	**101,250**	**$ 737,290**	**$ (21,054)**	**$ (475,205)**	**$ 241,031**	**$ 18,678**	**$ 259,709**
Purchase of non-controlling interest in subsidiary	—		(272)	—	—	(272)	(14)	(286)
NCI adjustments for changes in ownership	—	400	601	—	—	601	(601)	—
Capital distributions, net	—	—	—	—	—	—	(30)	(30)
Other equity transactions	—	97	300	—	—	300	—	300
Equity-based compensation expense and related issuances	—	1,693	6,042	—	—	6,042	—	6,042
Net loss	—	—	—	—	(7,809)	(7,809)	(833)	(8,642)
March 31, 2021	**3,861**	**103,440**	**$ 743,961**	**$ (21,054)**	**$ (483,014)**	**$ 239,893**	**$ 17,200**	**$ 257,093**
NCI adjustments for changes in ownership	—	666	(1,463)	—	—	(1,463)	1,463	—
Capital distributions, net	—	—	—	—	—	—	(2,547)	(2,547)
Other equity transactions	—	1	117	—	—	117	—	117
Equity-based compensation expense and related issuances	—	1,595	6,981	—	—	6,981	—	6,981
Net loss	—	—	—	—	(2,553)	(2,553)	(753)	(3,306)
June 30, 2021	**3,861**	**105,702**	**$ 749,596**	**$ (21,054)**	**$ (485,567)**	**$ 242,975**	**$ 15,363**	**$ 258,338**
NCI adjustments for changes in ownership	—	—	76	—	—	76	(76)	—
Equity-based compensation expense and related issuances	—	701	4,168	—	—	4,168	—	4,168
Net loss	—	—	—	—	(12,297)	(12,297)	(1,761)	(14,058)
September 30, 2021	**3,861**	**106,403**	**$ 753,840**	**$ (21,054)**	**$ (497,864)**	**$ 234,922**	**$ 13,526**	**$ 248,448**

ACREAGE HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

			Attributable to shareholders of the parent					
(in thousands)	LLC Membership Units	Pubco Shares (as converted)	Share Capital	Treasury Stock	Accumulated Deficit	Shareholders' Equity	Non-controlling Interests	Total Equity
December 31, 2021	**3,861**	**106,903**	**$ 756,536**	**$ (21,054)**	**$ (538,215)**	**$ 197,267**	**$ 7,003**	**$ 204,270**
NCI adjustments for changes in ownership	—	—	5	—	—	5	(5)	—
Equity-based compensation expense and related issuances	—	508	4,159	—	—	4,159	—	4,159
Net loss	—	—	—	—	(12,694)	(12,694)	(1,217)	(13,911)
March 31, 2022	**3,861**	**107,411**	**$ 760,700**	**$ (21,054)**	**$ (550,909)**	**$ 188,737**	**$ 5,781**	**$ 194,518**
NCI adjustments for changes in ownership	—	—	(4,524)	—	—	(4,524)	4,524	—
Capital distributions, net	—	—	—	—	—	—	(5,534)	(5,534)
Equity-based compensation expense and related issuances	—	1,778	1,655	—	—	1,655	—	1,655
Net loss	—	—	—	—	(9,929)	(9,929)	(674)	(10,603)
June 30, 2022	**3,861**	**109,189**	**$ 757,831**	**$ (21,054)**	**$ (560,838)**	**$ 175,939**	**$ 4,097**	**$ 180,036**
NCI adjustments for changes in ownership	—	—	697	—	—	697	(697)	—
Other equity transactions	—	378	—	—	—	—	—	—
Equity-based compensation expense and related issuances	—	2,580	3,156	—	—	3,156	—	3,156
Net loss	—	—	—	—	(22,214)	(22,214)	(2,784)	(24,998)
September 30, 2022	**3,861**	**112,147**	**$ 761,684**	**$ (21,054)**	**$ (583,052)**	**$ 157,578**	**$ 616**	**$ 158,194**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

ACREAGE HOLDINGS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Nine Months Ended September 30, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (49,512)	$ (26,004)
Adjustments for:		
Depreciation and amortization	6,019	9,670
Depreciation and amortization included in COGS	4,840	1,714
Equity-based compensation expense	8,970	17,607
Gain on business divestiture	(3,490)	(11,681)
Loss on disposal of capital assets	49	1,690
Loss on impairment	2,973	9,947
Loss on notes receivable	7,219	3,726
Recovery on notes receivable	(1,107)	—
Bad debt expense	22	(1,060) [1]
Non-cash interest expense	2,301	3,154
Non-cash operating lease expense	223	(572)
Loss on lease termination	297	—
Deferred tax (income) expense	(889)	(8,125)
Non-cash loss from investments, net	895	778
Other non-cash (income) expense, net	—	(2,500)
Write-down (recovery) of assets held-for-sale	874	(8,616)
Change, net of acquisitions in:		
Accounts receivable, net	(2,787)	(11,128) [1]
Inventory	(8,715)	(11,864)
Other assets	(1,240)	9,514 [1]
Interest receivable	(1,125)	(1,031)
Accounts payable and accrued liabilities	(279)	1,238
Taxes payable	4,668	12,935
Interest payable	(265)	(2,060)
Other liabilities	(414)	(5,644)
Net cash used in operating activities	$ (30,473)	$ (18,312)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of capital assets	$ (12,582)	$ (27,535)
Investments in notes receivable	—	(3,918)
Collection of notes receivable	7,106	13,225
Proceeds from business divestiture	—	24,407
Proceeds from sale of capital assets	—	5
Business acquisitions, net of cash acquired	—	541
Purchases of intangible assets	(900)	—
Distributions from investments	1,048	1,427
Proceeds from sale of promissory notes	—	26,000
Cash paid for short-term investment	(3,400)	—
Proceeds from disposal of short-term investments	3,400	—
Net cash provided by (used in) investing activities	$ (5,328)	$ 34,152
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from financing (refer to Note 14 for related party financing)	$ 25,000	$ 6,301
Deferred financing costs paid	(511)	(975)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Repayment of debt		(1,084)		(46,321)
Capital distributions - non-controlling interests		(5,534)		—
Net cash provided by (used in) financing activities	$	17,871	$	(40,995)
Net decrease in cash, cash equivalents, restricted cash, and cash held for sale	$	(17,930)	$	(25,155)
Cash, cash equivalents, restricted cash, and cash held for sale - Beginning of period		44,501		54,639
Cash, cash equivalents, restricted cash, and cash held for sale - End of period	$	26,571	$	29,484
RECONCILIATION OF CASH FLOW INFORMATION:				
Cash and cash equivalents	$	26,476	$	27,868
Restricted cash		95		1,098
Cash held for sale	$	—	$	518
Total cash, cash equivalents, restricted cash, and cash held for sale at end of period	$	26,571	$	29,484

[1] Presentation of September 30, 2021 figures have been revised, refer to Note 2 for further discussion.

	Nine Months Ended September 30,			
(in thousands)	2022		2021	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest paid - non-lease	$	12,730	$	11,444
Income taxes paid		21,742		6,346
OTHER NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Capital assets not yet paid for	$	6,242	$	4,063
Promissory note conversion (Note 6)		—		10,880
Insurance proceeds not yet received		—		6,790
Non-cash proceeds from business divestiture		7,850		34,475
Non-cash proceeds from finance lease		5,785		—

1. NATURE OF OPERATIONS

Acreage Holdings, Inc. (the "Company", "Pubco" or "Acreage") is a vertically integrated, multi-state operator in the United States ("U.S.") cannabis industry and has contractual relationships with cannabis cultivation facilities, dispensaries and other cannabis-related companies in the U.S. The Company's operations include (i) cultivating and processing cannabis plants, (ii) manufacturing branded consumer products, (iii) distributing cannabis flower and manufactured products, and (iv) retailing dosable cannabis products to consumers. The Company's products appeal to medical and adult recreational use customers through brand strategies intended to build trust and loyalty. The Company's Class E subordinate voting shares ("Fixed Shares") and Class D subordinate voting shares ("Floating Shares") are listed on the Canadian Securities Exchange under the symbols "ACRG.A.U" and "ACRG.B.U", respectively, quoted on the OTCQX under the symbols "ACRHF" and "ACRDF", respectively, and traded on the Frankfurt Stock Exchange under the symbols "0VZ1" and "0VZ2", respectively.

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

The Company's principal place of business is located at 366 Madison Ave, 14th floor, New York, New York in the U.S. The Company's registered and records office address is Suite 2800, Park Place, 666 Burrard Street, Vancouver, British Columbia in Canada.

The RTO transaction

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

Canopy Growth Corporation transaction

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

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

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

Subsequent to the balance sheet date, the Company entered into a new arrangement agreement with Canopy Growth regarding the acquisition of the Company's Floating Shares. Refer to Note 17 for further discussion.

COVID-19

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and going concern

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting only of normal recurring adjustments necessary for a fair presentation have been reflected in these unaudited condensed consolidated financial statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2022, or any other period.

As reflected in the unaudited condensed consolidated financial statements, the Company had an accumulated deficit as of September 30, 2022, as well as a net loss and negative cash flow from operating activities for the nine months ended September 30, 2022. These factors raise substantial doubt about the Company's ability to continue as a going concern for at least one year from the issuance of these financial statements.

However, management believes that substantial doubt about the Company's ability to meet its obligations for the next twelve months from the date these financial statements were issued has been alleviated due to, but not limited to, (i) access to future capital commitments, (ii) continued sales growth from the Company's consolidated operations, (iii) latitude as to the timing and amount of certain operating expenses as well as capital expenditures, (iv) restructuring plans that have already been put in place to improve the Company's profitability, (v) the AFC-VRT credit facilities (refer to Notes 10 and 17 for further discussion), and (vi) access to the U.S. and Canadian public equity markets.

If the Company is unable to raise additional capital whenever necessary, it may be forced to decelerate or curtail its footprint build-out or other operational activities until such time as additional capital becomes available. Such limitation of the Company's activities would allow it to slow its rate of spending and extend its use of cash until additional capital is raised. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur at any time within the next twelve months or thereafter which could increase the Company's need to raise additional capital on an immediate basis.

These interim unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, dated March 11, 2022, as filed with the Securities and Exchange Commission (the "2021 Form 10-K").

Use of estimates

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

Emerging growth company

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

Functional and presentation currency

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

Basis of consolidation

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

VIEs

In determining whether the Company is the primary beneficiary of a VIE, the Company assesses whether it has the power to direct matters that most significantly impact the activities of the VIE and have the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. There were no material consolidated VIEs as of September 30, 2022 or December 31, 2021.

Non-controlling interests ("NCI")

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

Restricted cash

Restricted cash represents funds contractually held for specific purposes and, as such, not available for general corporate purposes.

Cash and restricted cash, as presented on the Unaudited Condensed Consolidated Statements of Cash Flows, consists of $26,476 and $95 as of September 30, 2022, respectively, and $27,868 and $1,098 as of September 30, 2021, respectively.

Accounts receivable valuations and reclassifications

Accounts receivable are stated at their net realizable value. The allowance against gross trade receivables reflects the best estimate of probable losses inherent in the receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available information. As of September 30, 2022 and December 31, 2021, the Company's allowance for doubtful accounts was $63 and $445, respectively.

Income taxes

The Company has unrecognized tax benefits ("UTBs") of $6,161 and $7,695 as of September 30, 2022 and December 31, 2021, respectively, which are included in *Other current liabilities* in the Consolidated Statements of Financial Position. UTBs arise as a result of differences existing between a tax position taken or expected to be taken on a tax return and the benefit recognized and measured.

Net loss per share

Net loss per share represents the net loss attributable to shareholders divided by the weighted average number of shares outstanding during the period on an as converted basis. Basic and diluted loss per share are the same as of September 30, 2022, 2021 and 2020, as the issuance of shares upon conversion, exercise or vesting of outstanding units would be anti-dilutive in each period. There were 47,999 and 42,621 anti-dilutive shares outstanding as of September 30, 2022 and 2021, respectively.

Change in presentation

Note that certain items presented on the nine months ended September 30, 2021, Unaudited Condensed Consolidated Statement of Cash Flows, includes a change in presentation to conform to the current year presentation. There was no impact to our Consolidated Financial Statements as a result of this reclassification.

Accounting Pronouncements Recently Adopted

As of January 1, 2022, the Company adopted ASU 2019-12 - *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12)*. ASU 2019-12 attempts to simplify aspects of accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The adoption of ASU 2019-12 did not have a material effect on the Company's unaudited condensed consolidated financial statements.

As of January 1, 2022, the Company adopted ASU 2020-01 - *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. The new standard clarifies the interaction of accounting for the transition into and out of the equity method. The new standard also clarifies the accounting for measuring certain purchased options and forward contracts to acquire investments. The adoption of ASU 2020-01 did not have a material effect on the Company's unaudited condensed consolidated financial statements.

As of January 1, 2022, the Company adopted ASU 2021-04 - *Earnings Per Share (Topic 260), Debt - Modifications and Extinguishments (Topic 470-50), Compensation - Stock Compensation (Topic 718), and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)*, which clarifies existing guidance for freestanding written call options which are equity classified and remain so after they are modified or exchanged in order to reduce diversity in practice. The standard applies prospectively to modifications or exchanges that occur after it is adopted. The adoption of ASU 2021-04 did not have a material effect on the Company's unaudited condensed consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

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

(in thousands, except per share data)

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

3. ACQUISITIONS, DIVESTITURES AND ASSETS HELD FOR SALE

Acquisitions

During the nine-month period ended September 30, 2022, the Company did not complete any business acquisitions. During the year ended December 31, 2021, the Company completed the following business acquisitions, and has allocated the purchase price as follows:

Purchase Price Allocation	Greenleaf	CWG	Total
Assets acquired:			
Cash and cash equivalents	$ 1,209	$ 828	$ 2,037
Inventory	2,692	1,200	3,892
Other current assets	1,520	347	1,867
Capital assets, net	22,923	3,312	26,235
Operating lease right-of-use asset	2,819	1,584	4,403
Goodwill	1,819	1,482	3,301
Intangible assets, net - cannabis licenses	16,800	3,200	20,000
Intangible assets, net - customer relationships	—	1,000	1,000
Other non-current assets	189	40	229
Liabilities assumed:			
Accounts payable and accrued liabilities	(1,829)	(464)	(2,293)
Taxes payable	(33)	(68)	(101)
Operating lease liability, current	(315)	(193)	(508)
Other current liabilities	(294)	3	(291)
Operating lease liability, non-current	(2,504)	(1,391)	(3,895)
Fair value of net assets acquired	**$ 44,996**	**$ 10,880**	**$ 55,876**
Consideration paid:			
Settlement of pre-existing relationship	44,996	10,880	$ 55,876
Total consideration	**$ 44,996**	**$ 10,880**	**$ 55,876**

Greenleaf

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

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

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

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

<u>CWG</u>

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

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

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

<u>NCCRE</u>

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

<u>Divestitures</u>

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. In April 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 for the nine months ended September 30, 2022 which was recorded in Other income, net in the Unaudited Condensed Consolidated Statements of Operations. The aggregate sales price consisted of \$750 paid to the Company in February 2021 and \$1,250 of promissory notes (refer to Note 6 for further discussion). In conjunction with the sale, the Company closed its dispensary in Powell. Further, the Company derecognized deferred tax liabilities of \$375 related to Medford.

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. In July 2022, the Company executed and closed an amendment to its previously announced asset purchase and services agreement for the sale of its four Oregon retail dispensaries (the "Amended Agreement"). Under the terms of the Amended Agreement, the sale price was reduced to \$6,200 and the Company recognized a gain on sale of \$3,189 for the nine months ended September 30, 2022 which was recorded in Other income, net in the Unaudited Condensed Consolidated Statements of Operations. The aggregate sales price consisted of a \$250 payment previously made at the signing of the Original Agreement, plus an additional \$100 in cash at closing. The remaining amount of \$5,850 has been satisfied by a 36-month secured promissory note bearing interest at a rate of 12% per annum (the "Note"). Under the terms of the Note, quarterly interest payments commence on January 1, 2023, principal payments of \$1,000 are due on January 1, 2024 and January 1, 2025, and the remaining principal is due on January 1, 2026.

(in thousands, except per share data)

During the nine months ended September 30, 2021, a subsidiary of the Company sold all equity interests in Acreage Florida, Inc. ("Acreage Florida"), for an aggregate sale price of $60,000. Acreage Florida is licensed to operate medical cannabis dispensaries, a processing facility and a cultivation facility in the state of Florida. The aggregate sales price consisted of approximately $21,500 in cash, $7,000 of the buyer's common stock, subject to a rolling lock up restriction period ending one year after the disposition date, with the lock up expiring in monthly 1/6th increments beginning October 27, 2021, and secured promissory notes totaling approximately $31,500. This resulted in a gain on sale of $11,682 recorded in *Other income, net* on the Consolidated Statements of Operations for the nine months ended September 30, 2021. The Company subsequently sold the promissory notes and recognized a net loss of $2,000 as discussed in Note 6. Further, the Company de-recognized deferred tax liabilities related to indefinite-lived intangible lived assets held by Acreage Florida of $6,044 as a result of the disposition in *Other income, net* on the Unaudited Condensed Consolidated Statements of Operations for the nine months ended September 30, 2021.

Assets Held for Sale

As of September 30, 2022, the Company did not have any business or assets that met the held-for-sale criteria. As of December 31, 2021 the Company determined certain businesses and assets met the held-for-sale criteria. As such, the related assets and liabilities within these disposal groups were transferred into Assets held-for-sale and Liabilities related to assets held for sale on the Unaudited Condensed Consolidated Statements of Financial Position.

During the nine months ended September 30, 2022, the Company tested each disposal group for impairment and recognized charges of $874 within Write down (recovery) of assets held-for-sale on the Unaudited Condensed Consolidated Statements of Operations related to Medford and Powell. During the nine months ended September 30, 2021, the Company recognized a recovery of assets held-for-sale of $8,616 related to the Acreage Florida disposal group within Write down (recovery) of assets held-for-sale on the Unaudited Condensed Consolidated Statements of Operations.

The table below presents the assets and liabilities classified as held for sale on the Unaudited Condensed Consolidated Statements of Financial Position for the year ended December 31, 2021 and is subject to change based on developments during the sales process.

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

[1] During the nine months ended September 30, 2022, the Company was unsuccessful in finding a satisfactory buyer for certain of its Michigan locations. As a result, the assets at these specific locations no longer meet the criteria for being classified as held-for-sale (refer to Note 7 for further discussion).

(in thousands, except per share data)

4. INTANGIBLE ASSETS AND GOODWILL

Intangible assets

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

Intangibles	September 30, 2022	December 31, 2021
Finite-lived intangible assets:		
Management contracts	$ 1,808	$ 1,511
Customer relationships	1,000	1,000
Total finite-lived intangible assets	2,808	2,511
Accumulated amortization on finite-lived intangible assets:		
Management contracts	(931)	(493)
Customer relationships	(850)	—
Total accumulated amortization on finite-lived intangible assets	(1,781)	(493)
Finite-lived intangible assets, net	1,027	2,018
Indefinite-lived intangible assets		
Cannabis licenses	134,780	117,677
Total intangibles, net	**$ 135,807**	**$ 119,695**

The intangible assets balance as of December 31, 2021 excludes intangible assets reclassified to assets held-for-sale (refer to Note 3 for further discussion). The average useful life of finite-lived intangible assets as of September 30, 2022 ranges from 0.3 to 1.5 years, with 0.3 and 1.5 years being the average useful life for customer relationships and management contracts, respectively.

During the three and nine months ended September 30, 2022, the Company amended the purchase price allocation related to its acquisition of Greenleaf based upon final valuations within the measurement period (refer to Note 3 for further discussion). As a result, $16,800 was re-allocated from *Goodwill* to *Intangible assets, net* on the Unaudited Condensed Consolidated Statements of Financial Position.

<u>Impairment of intangible assets</u>

The Company assessed whether any events or changes in circumstances ("triggering events") indicated finite-lived intangible assets to be held-and-used would not be recovered. During the three and nine months ended September 30, 2022, the Company did not identify any triggering events. During the nine months ended September 30, 2021, the Company identified a triggering event for its management contract owned by Prime Alternative Treatment Center Consulting, LLC ("PATCC"). The Company evaluated the recoverability of the asset by comparing the carrying value of the asset to the future net undiscounted cash flows expected to be generated by the asset. The carrying value was determined to not be recoverable and the Company proceeded to test the asset for impairment. The Company recognized an impairment charge of $818 due to changes in expected cash flows pursuant to a revised consulting services agreement. These charges are recognized in *Impairments, net* on the Unaudited Condensed Consolidated Statements of Operations. The impairment resulted in the recognition of a tax provision benefit and an associated reversal of deferred tax liabilities of $207 during the nine months ended September 30, 2021.

During the three and nine months ended September 30, 2021, the Company de-recognized deferred tax liabilities related to indefinite-lived intangible assets held by Acreage Florida of $6,044 in Other income (loss), net on the Unaudited Condensed Consolidated Statements of Operations. Refer to Note 3 for further discussion.

Amortization expense associated with the Company's intangible assets was $296 and $1,288 for the three and nine months ended September 30, 2022, respectively, and $3,117 and $7,588 for the three and nine months ended September 30, 2021, respectively.

(in thousands, except per share data)

Expected annual amortization expense for existing intangible assets subject to amortization as of September 30, 2022 is as follows for each of the next five fiscal years:

Amortization of Intangibles	2022	2023	2024	2025	2026
Amortization expense	$ 297	$ 584	$ 146	$ —	$ —

Goodwill

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

Goodwill	Total
December 31, 2021	**$ 43,310**
Adjustment to purchase price allocation	(16,500)
Other Adjustments(1)	3,682
September 30, 2022	**$ 30,492**

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

During the three and nine months ended September 30, 2022, the Company amended the purchase price allocation related to its acquisition of Greenleaf based upon final valuations within the measurement period (refer to Note 3 for further discussion). As a result, $16,800 was re-allocated from *Goodwill* to *Intangible assets, net* on the Unaudited Condensed Consolidated Statements of Financial Position.

5. INVESTMENTS

The carrying values of the Company’s investments in the Unaudited Condensed Consolidated Statements of Financial Position as of September 30, 2022 and December 31, 2021 are as follows:

Investments	September 30, 2022	December 31, 2021
Investments held at FV-NI	$ 34,328	$ 35,226
Total long-term investments	**$ 34,328**	**$ 35,226**

Income (loss) from investments, net in the Unaudited Condensed Consolidated Statements of Operations during the three and nine months ended September 30, 2022 and 2021 is as follows:

Investment income (loss)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Short-term investments	$ 1	$ —	$ 4	$ —
Investments held at FV-NI	16	489	150	(777)
Income (loss) from investments, net	**$ 17**	**$ 489**	**$ 154**	**$ (777)**

(in thousands, except per share data)

Investments held at FV-NI

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

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

6. NOTES RECEIVABLE

Notes receivable as of September 30, 2022 and December 31, 2021 consisted of the following:

	September 30, 2022	December 31, 2021
Promissory notes receivable	$ 34,257	$ 27,260
Line of credit receivable	6,831	12,609
Interest receivable	3,524	2,834
Allowance for notes and interest receivables	(14,769)	(8,036)
Total notes receivable	**$ 29,843**	**$ 34,667**
Less: Notes receivable, current	2,500	7,104
Notes receivable, non-current	$ 27,343	$ 27,563

Interest income on notes receivable during the three and nine months ended September 30, 2022 was $474 and $1,256, respectively, and $1,067 and $4,125 for the three and nine months ended September 30, 2021, respectively.

The Company determined that the collectability of certain notes receivables is doubtful based on information available. As of September 30, 2022 and December 31, 2021, the Company's allowance for notes receivable of $14,769 and $8,036, respectively, included $12,292 and $6,046 of principal outstanding and $2,477 and $1,990 of accrued interest, respectively, and represents the full value of such loan balances.

Activity during the nine months ended September 30, 2022

In February 2022, the Company received a $5,279 cash payment in full on a line of credit due from Patient Centric Martha's Vineyard, and subsequently closed the line of credit.

In April 2022, the Company executed and closed its previously announced asset purchase agreement for the sale of Medford and Powell in Oregon. Part of the total consideration was satisfied by a 12-month $1,250 secured promissory note bearing interest at a rate of 12.5% per annum, refer to Note 3 for further discussion. In August 2022, the secured promissory note was replaced with a $500 secured promissory note bearing interest at a rate of 12.5% per annum and a $750 non-interest bearing secured promissory note, with both secured promissory notes due on May 1, 2023.

In July 2022, the Company executed and closed an amendment to its previously announced asset purchase and services agreement for the sale of its four Oregon retail dispensaries (the "Amended Agreement"). Part of the total consideration was satisfied by a 36-month $5,850 secured promissory note bearing interest at a rate of 12% per annum, refer to Note 3 for further discussion.

Activity during the nine months ended September 30, 2021

In March 2021, the Company entered into a revised consulting services and line of credit agreement with PATCC, whereby previously unrecognized management fees were settled for $2,500, which was recognized in *Other revenue, net* on Unaudited

(in thousands, except per share data)

Condensed Consolidated Statements of Operations during the three and nine months ended September 30, 2021. Pursuant to the revised line of credit agreement, the line of credit is non-interest bearing and will be repaid on a payment schedule with seven payments in the aggregate amount of $7,150 through June 2023.

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

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

7. CAPITAL ASSETS, net

Net property, plant and equipment consisted of:

	September 30, 2022	December 31, 2021
Land	$ 3,828	$ 3,777
Building	57,935	43,921
Right-of-use asset, finance leases	10,731	5,077
Furniture, fixtures and equipment	31,587	31,325
Leasehold improvements	37,399	51,646
Construction in progress	17,409	7,644
Capital assets, gross	$ 158,889	$ 143,390
Less: accumulated depreciation	(23,527)	(16,593)
Capital assets, net	**$ 135,362**	**$ 126,797**

Depreciation of capital assets for the three and nine months ended September 30, 2022 is comprised of $751 and $4,731 of depreciation expense, and $1,963 and $5,679 that was capitalized to inventory, respectively, and $928 and $2,083 of depreciation expense and $876 and $2,567 that was capitalized to inventory for the three and nine months ended September 30, 2021, respectively.

During the nine months ended September 30, 2022, the Company determined that it was unable to find a satisfactory buyer for the held-for-sale assets related to its Michigan operations and, as such, these assets were reclassified as held-and-used. This conclusion was considered a triggering event for capital asset impairment testing. Upon assessment, these specific capital assets were not considered to have future economic value. As such, the fair value of the assets was considered to be nil and the Company recognized an impairment charge of $1,907 within *Impairments, net* on the Statements of Operations during the nine months ended September 30, 2022. Refer to Note 3 for further discussion on changes in held-for-sale entities.

In August 2021, the Company's Sewell facility in New Jersey was negatively impacted by a tornado formation from Hurricane Ida. The unusually severe weather conditions caused widespread damage and resulted in a $9,130 loss to capital assets, which has been offset by insurance proceeds of $7,000. The net loss of $2,130 was recognized in *Impairments, net* on the Statements of Operations for the three months ended September 30, 2021.

(in thousands, except per share data)

8. LEASES

The Company leases land, buildings, equipment and other capital assets which it plans to use for corporate purposes in addition to the production and sale of cannabis products. Leases with an initial term of 12 months or less are not recorded on the 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.

Balance Sheet Information	Classification	September 30, 2022	December 31, 2021
Right-of-use assets			
Operating	Operating lease right-of-use assets	$ 22,730	$ 24,598
Finance	Capital assets, net	9,986	4,522
Total right-of-use assets		**$ 32,716**	**$ 29,120**
Lease liabilities			
Current			
Operating	Operating lease liability, current	$ 2,298	$ 2,145
Financing	Debt, current	5,635	—
Non-current			
Operating	Operating lease liability, non-current	22,324	24,255
Financing	Debt, non-current	5,290	5,245
Total lease liabilities		**$ 35,547**	**$ 31,645**

Statement of Operations Information	Classification	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Short-term lease expense	General and administrative	$ (28)	$ (40)	$ 190	$ 17
Operating lease expense	General and administrative	1,221	1,038	3,613	3,175
Finance lease expense:					
Amortization of right of use asset	Depreciation and amortization	63	63	190	190
Interest expense on lease liabilities	Interest expense	314	190	855	561
Sublease income	Other income (loss), net	—	—	—	(3)
Net operating and finance lease cost		**$ 1,598**	**$ 1,291**	**$ 4,658**	**$ 3,923**

Statement of Cash Flows Information	Classification	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Cash paid for operating leases	Net cash used in operating activities	$ 3,390	$ 3,747
Cash paid for finance leases - interest	Net cash used in operating activities	$ 843	$ 508

(in thousands, except per share data)

The following represents the Company's future minimum payments required under existing leases with initial terms of one year or more as of September 30, 2022:

Maturity of lease liabilities	Operating Leases	Finance Leases
2022	$ 1,147	$ 5,858
2023	4,349	722
2024	4,310	743
2025	4,347	766
2026	4,428	789
Thereafter	20,285	12,487
Total lease payments	**$ 38,866**	**$ 21,365**
Less: interest	14,244	10,440
Present value of lease liabilities	**$ 24,622**	**$ 10,925**

Weighted average remaining lease term (years)	8	2
Weighted average discount rate	10%	12%

As of September 30, 2022, there have been no leases entered into that have not yet commenced.

9. INVENTORY

The Company's inventory balance consists of the following:

	September 30, 2022	December 31, 2021
Retail inventory	$ 4,116	$ 3,331
Wholesale inventory	37,143	28,643
Cultivation inventory	6,492	6,367
Supplies & other	3,141	3,463
Total	**$ 50,892**	**$ 41,804**

Inventory is valued at the lower of cost and net realizable value ("NRV"), defined as estimated selling price in the ordinary course of business, less estimated costs of disposal. During the nine months ended September 30, 2022, the Company analyzed its inventory balances, and recorded wholesale inventory adjustments as a result of (i) having excess inventory and (ii) reducing the carrying value to ensure inventory balances are properly recorded at the lower of cost and NRV. The Company recognized $6,286 of wholesale inventory adjustments within *Cost of goods sold, wholesale* on the Statements of Operations during the three and nine months ended September 30, 2022.

10. DEBT

The Company's debt balances consist of the following:

Debt balances	September 30, 2022	December 31, 2021
Financing liability (failed sale-leaseback)	$ 15,253	$ 15,253
Finance lease liabilities	10,925	5,245
7.50% Loan due April 2026	31,156	30,763
6.10% Secured debenture due September 2030	46,388	46,050
Note due December 2024	3,958	4,750
9.75% Credit facilities due January 2026	94,412	68,673
Total debt	**$ 202,092**	**$ 170,734**
Less: current portion of debt	7,218	1,583
Total long-term debt	**$ 194,874**	**$ 169,151**

(in thousands, except per share data)

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

2022	$	6,426
2023		1,583
2024		1,584
2025		—
2026		133,011
Thereafter		70,532
Total payments (excluding amortization of discount and issuance costs)	$	213,136

During the three and nine months ended September 30, 2022, the Company incurred interest expense of $5,688 and $15,989, respectively, and $3,620 and $14,072 during the three and nine months ended September 30, 2021, respectively, on the Unaudited Condensed Consolidated Statements of Operations. Interest expense for the three and nine months ended September 30, 2022 included debt discount amortization of $381 and $1,132, respectively, and amortization of debt issuance costs of $297 and $849, respectively. Interest expense for the three and nine months ended September 30, 2021 included debt discount amortization of $298 and $821, respectively, and amortization of debt issuance costs of $493 and $2,914, respectively. As of September 30, 2022 and December 31, 2021, the Company had unamortized discount $5,062 and $6,194, respectively, and debt issuance costs of $5,982 and $6,320, respectively, which is netted against the gross carrying value of long-term debt in *Debt, non-current* on Unaudited Condensed Unaudited Condensed Consolidated Statements of Financial Position. Additionally, as of September 30, 2022 and December 31, 2021, the Company had accrued interest of $1,167 and $1,432, respectively, within *Interest payable* on the Unaudited Condensed Consolidated Statements of Financial Position.

Financing liability (failed sales leaseback)

In connection with the Company's failed sale-leaseback transaction in November 2020, a financing liability was recognized equal to the cash proceeds received. The Company will recognize the cash payments made on the lease as interest expense, and the principal will be de-recognized upon expiration of the lease.

6.10% Secured debenture due September 2030

On September 23, 2020, pursuant to the implementation of the Amended Arrangement (Refer to Note 13 for further discussion), a subsidiary of Canopy Growth advanced gross proceeds of $50,000 (less transaction costs of approximately $4,025) to Universal Hemp, an affiliate of the Company, pursuant to the terms of a secured debenture ("6.1% Loan"). In accordance with the terms of the debenture, the funds cannot be used, directly or indirectly, in connection with or for any cannabis or cannabis-related operations in the United States, unless and until such operations comply with all applicable laws of the United States. An additional $50,000 may be advanced pursuant to the debenture subject to the satisfaction of certain conditions by Universal Hemp. The debenture bears interest at a rate of 6.1% per annum, matures 10 years from the date hereof or such earlier date in accordance with the terms of the debenture and all interest payments made pursuant to the debenture are payable in cash by Universal Hemp. The debenture is secured by substantially all of the assets of Universal Hemp and its subsidiaries and, further, is not convertible and is not guaranteed by Acreage.

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

(in thousands, except per share data)

7.50% Loan due April 2026

On September 28, 2020, the Company received gross proceeds of $33,000 (less transaction costs of approximately $959) from an affiliate of the Institutional Investor (the "Lender") and used a portion of the proceeds of this loan to retire its short-term $11,000 convertible note (as described above) and its short-term note aggregating approximately $18,000 in October 2020, with the remainder being used for working capital purposes. The loan is unsecured, matures in 3 years and bears interest at a 7.5% annual interest rate. The Lender is controlled by the Institutional Investor. The Investment Partnership is the investor in the Lender. On December 16, 2021, the Company paid an amendment fee of $413 to extend the maturity date from September 28, 2023 to April 2, 2026. The amendment was treated as a debt extinguishment.

Note due December 2024

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

9.75% Credit facilities due January 2026

On December 16, 2021, the Company entered into a $150,000 senior secured credit facility with a syndicate of lenders consisting of a $75,000 initial draw, a $25,000 delayed draw that must be advanced within 12 months and a $50,000 committed accordion facility that is available after December 1, 2022, provided certain financial covenants are met, and with a maturity of January 1, 2026. Upon closing, gross proceeds of $75,000 were drawn (before origination discounts and issuance costs of approximately $4,000 and $1,500, respectively, which were capitalized). In April 2022, the Company drew down on the remaining $25,000 under this facility. Refer to Note 14 for further discussion of the syndicated related party lender.

The loan is secured by pledged equity interests and substantially all of the assets of the Company. Advances under the facility bear interest at 9.75% per annum (plus an additional 1.0% per annum until certain collateral assignment agreements are delivered) and undrawn amounts (excluding the committed accordion facility until it is available) bear interest at 3.0% per annum.

The loan is subject to various financial covenants, including a fixed charge coverage ratio and two leverage ratios. The Company obtained a waiver of these covenants for the three month periods ended March 31, 2022 and June 30, 2022. This waiver included a $500 waiver fee that was paid to the lenders. Subsequent to the balance sheet date, the 9.75% Credit facilities due January 2026 were amended (refer to Note 17 for further discussion).

Commencing with the receipt of the of the loan, mandatory prepayments are required from net proceeds of certain sale or disposition activities provided these proceeds are not invested in additional capital assets within 12 months of the disposition date, as defined by the Credit Agreement.

11. SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

The table below details the change in Pubco shares outstanding by class for the three and nine months ended September 30, 2022:

Shareholders' Equity	Fixed Shares	Floating Shares	Fixed Shares Held in Treasury	Floating Shares Held in Treasury	Fixed Multiple Shares	Total Shares Outstanding
December 31, 2021	**74,665**	**32,962**	**(589)**	**(253)**	**118**	**106,903**
Issuances	3,897	969	—	—	—	4,866
NCI conversions	265	113	—	—	—	378
September 30, 2022	**78,827**	**34,044**	**(589)**	**(253)**	**118**	**112,147**

(in thousands, except per share data)

Warrants

A summary of the warrants activity outstanding is as follows:

Warrants	Fixed Shares	Floating Shares
December 31, 2021	**5,817**	**2,524**
Expired	—	—
September 30, 2022	**5,817**	**2,524**

The exercise price of each Fixed Share warrant ranged from $3.15 to $4.00, respectively, and the exercise price of each Floating Share warrant ranged from $3.01 to $4.00, respectively. The warrants are exercisable for a period of 4 years. The weighted-average remaining contractual life of the warrants outstanding is approximately 2.4 years. There was no aggregate intrinsic value for warrants outstanding as of September 30, 2022.

Non-controlling interests - convertible units

The Company has NCIs in consolidated subsidiaries USCo2 and HSCP. The non-voting shares of USCo2 and HSCP units make up substantially all of the NCI balance as of September 30, 2022 and are convertible for either 0.7 of a Fixed Share and 0.3 of a Floating Share of Pubco or cash, as determined by the Company. Summarized financial information of HSCP is presented below. USCo2 does not have discrete financial information separate from HSCP.

HSCP net asset reconciliation	September 30, 2022	December 31, 2021
Current assets	$ 93,253	$ 113,011
Non-current assets	385,138	375,807
Current liabilities	(18,429)	(29,256)
Non-current liabilities	(220,299)	(195,791)
Other NCI balances	(723)	(718)
Accumulated equity-settled expenses	(239,592)	(226,596)
Net assets	$ (652)	$ 36,457
HSCP/USCo2 ownership % of HSCP	16.36 %	17.24 %
Net assets allocated to USCo2/HSCP	$ (107)	$ 6,285
Net assets attributable to other NCIs	723	718
Total NCI	$ 616	$ 7,003

	Three Months Ended September 30,		Nine Months Ended September 30,	
HSCP Summarized Statement of Operations	**2022**	**2021**	**2022**	**2021**
Net loss allocable to HSCP/USCo2	$ (16,549)	$ (10,052)	$ (27,589)	$ (18,882)
HSCP/USCo2 weighted average ownership % of HSCP	16.84 %	17.57 %	16.96 %	17.80 %
Net loss allocated to HSCP/USCo2	$ (2,787)	$ (1,766)	$ (4,679)	$ (3,361)
Net loss allocated to other NCIs	3	5	4	14
Net loss attributable to NCIs	$ (2,784)	$ (1,761)	$ (4,675)	$ (3,347)

As of September 30, 2022, USCo2's non-voting shares owned approximately 0.22% of HSCP units. USCo2's capital structure is comprised of voting shares, all of which are held by the Company, and of non-voting shares held by certain former HSCP members. Certain executive employees and profits interests holders own approximately 16.14% of HSCP units. The remaining 83.64% interest in HSCP is held by USCo and represents the members' equity attributable to shareholders of the parent.

During the nine months ended September 30, 2022 and 2021, the Company had several transactions with HSCP and USCo2 that changed its ownership interest in the subsidiaries but did not result in loss of control. These transactions included business acquisitions and the redemption of HSCP and USCo2 convertible units for Pubco shares (as shown in the table below), and resulted in a $55 allocation from shareholders' equity to NCI and $862 allocation from NCI to shareholders' equity for the nine months ended September 30, 2022 and 2021, respectively.

(in thousands, except per share data)

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

Convertible Units	September 30, 2022	December 31, 2021
Beginning balance	**23,076**	**24,142**
NCI units converted to Pubco	(378)	(1,066)
Ending balance	**22,698**	**23,076**

12. EQUITY-BASED COMPENSATION EXPENSE

Amended Arrangement with Canopy Growth

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

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

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

Pursuant to the Amended Arrangement, the Company retained the Plan described above, the upper limit of issuances being up to an amount equal to 15% of the issued and outstanding Fixed Shares and Floating Shares of the Company. As of September 30, 2022, the Company had 3,199 shares authorized and available for grant under the Plan.

Restricted Share Units ("RSUs")

	Fixed Shares		Floating Shares	
Restricted Share Units (Fair value information expressed in whole dollars)	**RSUs**	**Weighted Average Grant Date Fair Value**	**RSUs**	**Weighted Average Grant Date Fair Value**
Unvested, January 1, 2022	3,188	$ 7.30	1,262	$ 7.39
Granted	7,717	$ 0.67	95	$ 1.19
Forfeited	(533)	$ 2.07	(83)	$ 2.54
Vested	(3,811)	$ 4.08	(764)	$ 7.90
Unvested, September 30, 2022	**6,561**	$ 1.80	**510**	$ 6.27
Vested and unreleased[1]	225	$ 5.80	24	$ 15.15
Outstanding, September 30, 2022	**6,786**	$ 1.93	**534**	$ 6.67

[1] RSUs that are vested and unreleased represent RSUs that are pending delivery.

RSUs of the Company generally vest over a period of three years and RSUs granted to certain executives vest based on achievement of specific performance conditions. In certain situations for specified individuals, RSUs vest on an accelerated basis on separation. The fair value for RSUs is based on the Company's share price on the date of the grant. The Company recorded $2,256 and $7,645 as *Equity-based compensation expense* on Unaudited Condensed Consolidated Statements of Operations during the three and nine months ended September 30, 2022, respectively, and $3,092 and $14,044 during the three and nine months ended September 30, 2021, respectively. The fair value of RSUs vested during the three and nine months ended September 30, 2022 was $1,427 and $4,760, respectively, and $718 and $15,045 during the three and nine months ended September 30, 2021, respectively.

(in thousands, except per share data)

The total weighted average remaining contractual life and aggregate intrinsic value of unvested RSUs as of September 30, 2022 was approximately 2 years and $3,856, respectively. Unrecognized compensation expense related to these awards at September 30, 2022 was $13,005 and is expected to be recognized over a weighted average period of approximately 1 year.

Stock options

	Fixed Shares		Floating Shares	
Stock Options (Exercise price expressed in whole dollars)	**Options**	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Options outstanding, January 1, 2022	1,529	$ 11.07	2,414	$ 3.06
Granted	5,849	$ 0.59	—	$ —
Forfeited	(41)	$ 5.66	(91)	$ 2.57
Expired	—	$ —	(20)	$ 2.55
Options outstanding, September 30, 2022	7,337	$ 2.75	2,303	$ 3.09
Options exercisable, September 30, 2022	1,229	$ 12.85	1,925	$ 3.14

Stock options of the Company generally vest over a period of three years and options granted to certain executives vest based on achievement of specific performance conditions. Stock options of the Company have an expiration period of 5 or 10 years from the date of grant. The weighted average contractual life remaining for Fixed Share options outstanding and exercisable as of September 30, 2022 was approximately 5 and 6 years, respectively. The weighted average contractual life remaining for Floating Share options outstanding and exercisable as of September 30, 2022 was approximately 4 and 4 years, respectively. The Company recorded $300 and $725 as *Equity-based compensation expense* on Unaudited Condensed Consolidated Statements of Operations during the three and nine months ended September 30, 2022 and $1,076 and $3,147 during the three and nine months ended September 30, 2021, respectively, in connection with these awards.

As of September 30, 2022, unamortized expense related to stock options totaled $2,182 and is expected to be recognized over a weighted-average period of approximately 2 years. As of September 30, 2022, the aggregate intrinsic value for unvested options and for vested and exercisable options was nil, respectively.

Equity-based compensation - other

In May 2022, the Company granted 301 Fixed Shares and 127 Floating Shares and recorded $600 as *Equity-based compensation expense* on Unaudited Condensed Consolidated Statements of Operations during the for the three and nine months ended September 30, 2022 in settlement of post-employment expenses.

13. COMMITMENTS AND CONTINGENCIES

Commitments

The Company provides revolving lines of credit to several of its portfolio companies. As of September 30, 2022, the maximum obligation under these arrangements was $15,150 (refer to Note 6 for further discussion).

Prior Plan of Arrangement with Canopy Growth

On June 19, 2019, the shareholders of the Company and of Canopy Growth separately approved the proposed plan of arrangement (the "Prior Plan of Arrangement") involving the two companies, and on June 21, 2019, the Supreme Court of British Columbia granted a final order approving the Prior Plan of Arrangement. Effective June 27, 2019, the articles of the Company were amended pursuant to the Prior Plan of Arrangement to provide that, upon the occurrence (or waiver by Canopy Growth) of the Triggering Event, subject to the satisfaction of the conditions set out in the arrangement agreement entered into between Acreage and Canopy Growth on April 18, 2019, as amended on May 15, 2019 (the "Original Arrangement Agreement"), Canopy Growth will acquire (the "Acquisition") all of the issued and outstanding shares in the capital of the Company (each, an "Acreage Share").

Second Amendment to the Arrangement Agreement with Canopy Growth

On September 23, 2020, Acreage and Canopy Growth entered into an amending agreement (the “Amending Agreement” or “Amended Arrangement”) (and together with the Original Arrangement Agreement and any further amendments thereto, the “Amended Plan of Arrangement”) and the Amended Arrangement became effective at 12:01 a.m. (Vancouver time) (the “Amendment Time”) on September 23, 2020 (the “Amendment Date”). Pursuant to the Amended Plan of Arrangement, Canopy Growth made a cash payment of $37,500 which was delivered to Acreage’s shareholders and certain holders of securities convertible or exchangeable into shares of Acreage. Acreage also completed a capital reorganization (the “Capital Reorganization”) effective as of the Amendment Time whereby: (i) each existing SVS was exchanged for 0.7 of a Fixed Share and 0.3 of a Floating Share; (ii) each issued and outstanding PVS was exchanged for 28 Fixed Shares and 12 Floating Shares; and (iii) each issued and outstanding MVS was exchanged for 0.7 of a Fixed Multiple Share and 0.3 of a Floating Share.

At the Amendment Time, each option, restricted share unit, compensation option, and warrant to acquire existing SVS (each a “Security”) that was outstanding immediately prior to the Amendment Time, was exchanged for a replacement Security to acquire Fixed Shares (a “Fixed Share Replacement Security”) and a replacement Security to acquire Floating Shares (a “Floating Share Replacement Security”) to account for the Capital Reorganization.

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

At the Acquisition Time, on the terms and subject to the conditions of the Amended Plan of Arrangement, each Fixed Share Replacement Security will be exchanged for a replacement Security from Canopy Growth 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 Security from Canopy Growth 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 (if the foregoing would result in the issuance of a fraction of a Canopy Growth Share, then the number of Canopy Growth Shares to be issued will be rounded down to the nearest whole number). In the event that the Floating Call Option is exercised and Canopy Growth acquires the Floating Shares at the Acquisition Time, Acreage will be a wholly-owned subsidiary of Canopy Growth.

The Amended Plan of Arrangement provides for, among other things, Amendments to the definition of Purchaser Approved Share Threshold (as defined therein) to change the number of shares of Acreage available to be issued by Acreage without an adjustment in the Fixed Exchange Ratio such that Acreage may issue a maximum of 32,700 shares. Furthermore, Acreage generally may not issue any equity securities without Canopy Growth’s prior consent. Additionally, the Amended Plan of Arrangement allows for various Canopy Growth rights that extend beyond the Acquisition Date, including, among others: (i) rights to nominate a majority of Acreage’s Board of Directors following the Acquisition Time; (ii) restrictive covenants in respect of the business conduct in favor of Canopy Growth; (iii) termination of non-competition and exclusivity rights granted to Acreage by Canopy Growth in the event that Acreage does not meet certain specified financial targets; (iv) implementation of further restrictions on Acreage’s ability to operate its business in the event that Acreage does not meet certain specified financial targets; and (v) termination of the Amended Plan of Arrangement in the event that Acreage does not meet certain specified financial targets in the trailing 12 month period. Each of the financial targets referred to above is specified in the Amending Agreement and related to the performance of Acreage relative to a business plan for Acreage for each fiscal year ended December 31, 2020 through December 31, 2029 set forth in the Proposal Agreement (the "Initial Business Plan").

Further, the Amended Plan of Arrangement imposes restrictions on Acreage entering into any contracts in respect of Company Debt if: (i) such contract would be materially inconsistent with market standards for companies operating in the United States cannabis industry; (ii) such contract prohibits a prepayment of the principal amount of such Company Debt; and (iii) such contract would provide for interest payments to be paid through the issuance of securities as opposed to cash, among other restrictions. The Amended Plan of Arrangement also provides for the following: (i) certain financial reporting obligations to Canopy Growth; (ii) certain specified criteria related to any new directors or officers of Acreage, and (iii) a limit to Acreage's operations to the Identified States (as defined therein).

Subsequent to the balance sheet date, the Company entered into a new arrangement agreement with Canopy Growth regarding the acquisition of the Company's Floating Shares. Refer to Note 17 for further discussion.

Tax Receivable Agreement and Tax Receivable Bonus Plans

The Company is a party to i) a tax receivable agreement dated November 14, 2018 and subsequently amended (the "Tax Receivable Agreement") between the Company and certain current and former unit holders of HSCP and ii) tax receivable bonus plans dated November 14, 2018 and subsequently amended (the "Tax Receivable Bonus Plans") between the Company and certain directors, officers and consultants of the Company (together the "Tax Receivable Recipients"). Under the Tax Receivable Agreement and the Tax Receivable Bonus Plans, the Company is required to make cash payments to the Tax Receivable Recipients equal to 85% of the tax benefits, if any, that the Company actually realizes, or in certain circumstances is deemed to realize, as a result of (i) the increases in its share of the tax basis of assets of HSCP resulting from any redemptions or exchanges of Units from the HSCP Members, and (ii) certain other tax benefits related to the Company making payments under the Tax Receivable Agreement and the Tax Receivable Bonus Plan. Although the actual timing and amount of any payments that the Company makes to the Tax Receivable Recipients can not be estimated, it expects those payments will be significant. Any payments made by the Company to the Tax Receivable Recipients may generally reduce the amount of overall cash flow that might have otherwise been available to it. Payments under the Tax Receivable Agreement are not conditioned on any Tax Receivable Recipient's continued ownership of Units or our shares after the completion of the RTO. Payments under the Tax Receivable Bonus Plan may, at times, be conditioned on the Tax Receivable Recipient's continued employment by the Company.

In connection with the Amended Arrangement, the Company amended the terms of the Tax Receivable Agreement and the Tax Receivable Bonus Plans. Additionally, subsequent to the balance sheet date, the Company agreed to further amendments to The Tax Receivable Agreement and the Tax Receivable Bonus Plan. Refer to Note 17 for further discussion.

Debenture

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

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

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

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

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

Advisor fee

In connection with the Prior Plan of Arrangement, the Company entered into an agreement with its financial advisor providing for a fee payment of $7,000 in either cash, Acreage shares or Canopy Growth shares, at the discretion of the Company, upon the successful acquisition of Acreage by Canopy Growth. Subsequent to September 30, 2022, the Company amended the terms of the agreement with its financial advisors providing for a fee payment of $3,000 in cash, less a $500 initial payment, and $2,000 in shares of the Company, upon the successful acquisition of Acreage by Canopy Growth.

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 September 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 September 30, 2022 and 2021, such amounts were not material.

CanWell Settlement

In November 2020, the Company entered into a final confidential settlement agreement with CanWell, LLC for certain outstanding proceedings. As part of that agreement, the Company accrued for $7,750 in *Legal settlements, net* on the Statements of Operations for the year ended December 31, 2020. In connection with this settlement agreement, the Company issued a promissory note in the amount of $7,750 to CanWell, which is non-interest bearing and is payable in periodic payments through December 31, 2024. Through September 30, 2022, the Company has paid $3,792 of the promissory note.

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 September 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.

New York outstanding litigation

On November 2, 2018, EPMMNY LLC ("EPMMNY") filed a complaint in the Supreme Court of the State of New York, County of New York, asserting claims against 16 defendants, including NYCANNA, Impire State Holdings LLC, NY Medicinal Research & Caring, LLC (each, a wholly-owned subsidiary of High Street) and High Street. The Index Number for the action is 655480/2018. EPMMNY alleges that it was wrongfully deprived of a minority equity interest and management role in NYCANNA by its former partner, New Amsterdam Distributors, LLC, which attempted to directly or indirectly sell or transfer EPMMNY's alleged interest in NYCANNA to other entities in 2016 and 2017, including Impire, NYMRC and High Street.

EPMMNY alleges that it is entitled to the value of its alleged minority interest in NYCANNA or minority ownership in NYCANNA. EPMMNY also alleges that certain defendants misused its alleged intellectual property and/or services, improperly solicited its employees, and aided and abetted or participated in the transfer of equity and/or business opportunities from EPMMNY.

High Street intends to vigorously defend this action, which the Company firmly believes is without merit. 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. High Street, along with the other defendants, filed a motion to dismiss on April 1, 2019. The motion was fully briefed and submitted to the Court as of July 18, 2019, and oral argument was heard on September 6, 2019. The motion remains pending before the Court. Following a hearing held the week of April 25-29, 2022, the Court ruled that Plaintiff had the capacity to bring this action on behalf of EPMMNY. The motions to dismiss remain pending on all other grounds.

14. RELATED PARTY TRANSACTIONS

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

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

6.10% Secured debenture due September 2030
As disclosed in Note 10, "6.10% Secured debenture due September 2030", on September 23, 2020, pursuant to the implementation of the Amended Arrangement, a subsidiary of Canopy Growth advanced gross proceeds of $50,000 (less transaction costs of approximately $4,025) to Universal Hemp, an affiliate of the Company, pursuant to the terms of a secured debenture. In accordance with the terms of the debenture, the funds cannot be used, directly or indirectly, in connection with or for any cannabis or cannabis-related operations in the United States, unless and until such operations comply with all applicable laws of the United States. Acreage then engaged an investment advisor (the "Investment Advisor") which, under the Investment Advisor's sole discretion, invested on behalf of Universal Hemp, $34,019 of the proceeds on September 28, 2020. During the three and nine months ended September 30, 2022, the Company incurred interest expense attributable to the 6.10% Secured debenture due September 2030 of $624 and $1,851, respectively.

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

(in thousands, except per share data)

Michigan consulting agreement

Pursuant to the Consulting Services Agreement by and between Kevin Michigan, LLC, a company controlled by Kevin Murphy, and High Street (the "Michigan Consulting Agreement"), High Street provides certain consulting services to Kevin Michigan, LLC, which includes, but is not limited to, services related to application support, provisioning center administration and operation, local and state regulatory filings, human resource matters, and marketing matters. The Michigan Consulting Agreement explicitly states that High Street is not able to direct or control the business of Kevin Michigan, LLC. Additionally, there are certain leases held by and between Kevin Michigan, LLC, as lessee and certain wholly owned subsidiaries of High Street, as lessors. As of September 30, 2022, Kevin Michigan, LLC is not operational, and no consulting fees or rents have been paid to High Street or its wholly owned subsidiaries. Kevin Michigan, LLC is owned and controlled by the Company's Chairman, Kevin Murphy.

9.75% Credit facilities due January 2026

As disclosed in Note 10, on December 16, 2021, the Company entered into the 9.75% Credit facilities due January 2026 with a syndicate of lenders, including Viridescent Realty Trust, Inc. ("Viridescent"), an entity controlled by Kevin Murphy. Under the terms of the 9.75% Credit facilities due January 2026, a $75,000 initial draw was available immediately, an additional $25,000 delayed draw is available that must be advanced within 12 months, and a $50,000 committed accordion facility is available after December 1, 2022, provided certain financial covenants are met. Advances under the facilities bear interest at 9.75% per annum and undrawn amounts (excluding the committed accordion facility until it is available) bear interest at 3.0% per annum. In April 2022, the Company drew down on the additional $25,000 delayed draw under this facility.

Viridescent has committed $30,000 of the $100,000 drawn down under the Credit Facility, with third-party syndicated affiliates committing the additional $70,000. During the three and nine months ended September 30, 2022, the Company incurred interest expense attributable to Viridescent of $824 and $2,215, respectively. The loan is secured by first-lien mortgages on Acreage's wholly owned real estate and other commercial security interests. A third-party syndicate served as Administrative Agent for the transaction. Subsequent to the balance sheet date, the 9.75% Credit facilities due January 2026 were amended (refer to Note 17 for further discussion).

15. REPORTABLE SEGMENTS

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

16. EARNINGS PER SHARE

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

Basic and diluted loss per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss attributable to common shareholders of the Company	$ (22,214)	$ (12,296)	$ (44,837)	$ (22,657)
Weighted average shares outstanding - basic	111,200	106,332	108,795	104,524
Effect of dilutive securities	—	—	—	—
Weighted average shares - diluted	111,200	106,332	108,795	104,524
Net loss per share attributable to common shareholders of the Company - basic	$ (0.20)	$ (0.12)	$ (0.41)	$ (0.22)
Net loss per share attributable to common shareholders of the Company - diluted	$ (0.20)	$ (0.12)	$ (0.41)	$ (0.22)

During the three and nine months ended September 30, 2022, 5,817 Fixed warrants, 2,524 Floating warrants, 6,786 Fixed Share RSUs, 534 Floating Share RSUs, 7,337 Fixed Share stock options, 2,303 Floating Share stock options and 22,698 NCI convertible units were excluded from the calculation of net loss per share attributable to common shareholders of the Company - diluted, as they were anti-dilutive. During the three and nine months ended September 30, 2021, 7,131 Fixed warrants, 3,087 Floating warrants, 3,621 Fixed Share RSUs, 1,757 Floating Share RSUs, 1,530 Fixed Share stock options, 2,419 Floating Share stock options and 23,076 NCI convertible units were excluded from the calculation of net loss per share attributable to common shareholders of the Company - diluted, as they were anti-dilutive.

17. SUBSEQUENT EVENTS

Acreage enters into new strategic arrangement with Canopy Growth

On October 24, 2022, the Company entered into an arrangement agreement (the "Floating Share Agreement") with Canopy Growth and Canopy USA, LLC ("Canopy USA"), Canopy Growth's newly-created U.S. domiciled holding company, pursuant to which, subject to approval of the holders of the Class D subordinate voting shares of Acreage (the "Floating Shares") and the terms and conditions of the Floating Share Agreement, Canopy USA will acquire all of the issued and outstanding Floating Shares by way of court-approved plan of arrangement (the "Floating Share Arrangement") for consideration of 0.4500 of a common share of Canopy Growth (each whole share a "Canopy Share") in exchange for each Floating Share.

Concurrently with entering into of the Floating Share Agreement, Canopy Growth irrevocably waived its option to acquire the Floating Shares pursuant to the Amended Arrangement.

Subject to the provisions of the Floating Share Agreement, Canopy Growth has agreed to exercise the fixed option pursuant to the Amended Agreement to acquire all outstanding Fixed Shares, representing approximately 70% of the total shares of Acreage as at the date hereof, at a fixed exchange ratio of 0.3048 of a Canopy Share for each Fixed Share.

Completion of the Floating Share Agreement is subject to the satisfaction or waiver of certain closing conditions, including receipt of applicable regulatory and court approvals, the approval of at least (i) 66⅔% of the votes cast by Floating Shareholders, and (ii) a majority of the votes cast by Floating Shareholders excluding the votes cast by "interested parties" and "related parties" under Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions ("MI 61-101") of the Canadian Securities Administrators, at a special meeting of Acreage shareholders (the "Special Meeting") expected to take place in January 2023.

Canopy Growth and Canopy USA have entered into voting support agreements with certain of the Company's directors and current and former officers holding approximately 7.3% of the issued and outstanding Floating Shares pursuant to which they have agreed, among other things, to vote their Floating Shares in favor of the Floating Share Agreement.

Acreage expects the Floating Share Arrangement to close in the second half of 2023, subject to receipt of shareholder, court, and regulatory approvals, as well as the satisfaction or waiver of all conditions under the Floating Share Agreement and the Amended Arrangement. It is anticipated that the acquisition by Canopy USA of the Fixed Shares pursuant to the Fixed Option will be completed immediately following closing of the Floating Share Agreement. Refer to Note 13 for further discussion on the Prior Plan of Arrangement and the Amended Arrangement

Tax Receivable Account and Tax Receivable Bonus Plan Amendments

Concurrently with execution of the Floating Share Agreement, Canopy Growth agreed to issue (i) Canopy Shares with a value of approximately $30,500 to certain current or former unit holders of HSCP to acquire the right to all future payments under HSCP's existing Tax Receivable Agreement, as amended (the "TRA") and (ii) a payment with a value of approximately $19,500 in Canopy Shares to certain directors, officers or consultants of Acreage to satisfy obligations under HSCP's existing Tax Receivable Bonus Plans, under further amendment to each. Canopy Shares with a value of approximately $15,300 will be issued to certain Holders as soon as practicable as the first installment under the amended TRA with a second payment of approximately $15,300 in Canopy Shares to occur on the earlier of (a) the second business day following the date on which the Floating Shareholders approve the Floating Share Arrangement; or (b) April 24, 2023. In addition, a final payment with a value of approximately $19,500 in Canopy Shares will be issued by Canopy Growth to certain eligible participants under the Tax Receivable Bonus Plans immediately prior to the completion of Floating Share Arrangement. Refer to Note 13 for further discussion on the Tax Receivable Agreement.

Credit Facility Amendment

On October 24, 2022, the Company amended its existing $150,000 credit facility (the "Amended Credit Facility"). Under the terms of the Amended Credit Facility, $25,000 is available for immediate draw by Acreage with a further $25,000 available in future periods under a committed accordion option once certain predetermined milestones are achieved. In conjunction with entering into the Amended Credit Facility, all financial debt covenants, except a minimum cash requirement, were waived until

December 31, 2023, and new covenants have been agreed upon in respect of all periods beginning on or after December 31, 2023. Finally, the Amended Credit Facility includes approval for Canopy USA to acquire control of Acreage without requiring repayment of all amounts outstanding under the Amended Credit Facility, provided certain conditions are satisfied. Acreage intends to use the proceeds of the Amended Credit Facility to fund expansion initiatives and provide additional working capital. The Amended Credit Facility will bear interest at a variable rate of U.S. prime (“Prime”) plus 5.75% per annum, payable monthly in arrears, with a Prime floor of 5.50%, and a maturity date of January 1, 2026. Under the terms of the Amended Credit Facility, the Company has the option to extend the maturity date to January 1, 2027, for a fee equal to 1.0% of the total loan amount. Separately, the Company paid an amendment fee of $1,250 to the syndicate of lenders. Refer to Note 10 for further discussion on the 9.75% Credit facilities due January 2026.

Management has reviewed all other events subsequent to September 30, 2022 through the date of issuing these financial statements and determined that no further subsequent events require adjustment or disclosure.