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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to assist in the understanding and assessing the trends and significant changes in our results of operations and financial condition. Historical results may not be indicative of future performance. This discussion includes forward-looking statements that reflect our plans, estimates and beliefs. Such statements involve risks and uncertainties. Our actual results may differ materially from those contemplated by these forward-looking statements as a result of various factors, including those set forth in "Risk Factors" in Part I, Item 1A of the Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K"), and "Cautionary Statement Regarding Forward-Looking Statements" set forth below.

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

Cautionary Statement Regarding Forward Looking-Statements

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

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

- the future implications to the business, financial results and performance of the Company arising, directly or indirectly, from COVID-19;
- the anticipated benefits of the Amended Arrangement;
- the anticipated benefits of the Floating Share Arrangement;
- the ability of Acreage to meets its performance targets and financial thresholds agreed upon with Canopy Growth as part of the Amended Arrangement;
- the likelihood of Canopy Growth completing the acquisition of the Fixed Shares and timing thereof;
- the likelihood of Canopy USA completing the acquisition of the Floating Shares and timing thereof;
- the ability of the parties to the Floating Share Arrangement to receive, in a timely manner and on satisfactory terms, the necessary regulatory, court and shareholder approvals;
- the ability of the parties to satisfy, in a timely manner, the other conditions to the completion of the Floating Share Agreement;
- the ability of the parties to each of the Amending Agreement and the Floating Share Agreement to satisfy, in a timely manner, the conditions to closing of each of the Amended Arrangement and the Floating Share Arrangement, respectively;
- in the event that the Floating Share Arrangement is not adopted, the likelihood of completion of the acquisition of the Floating Shares pursuant to an alternative transaction;
- in the event that the Floating Share Arrangement is not adopted, the likelihood of Canopy Growth completing the acquisition of the Fixed Shares under the Amended Arrangements; risks related to the ability of the Company to finance its business and fund its obligations;
- other expectations and assumptions concerning the transactions contemplated between Canopy Growth and/or Canopy USA and Acreage;
- the available funds of Acreage and the anticipated use of such funds;
- the availability of financing opportunities for Acreage and the risks associated with the completion thereof;
- regulatory and licensing risks;

- changes in general economic, business and political conditions, including changes in the financial and stock markets;
- risks related to infectious diseases, including the impacts of COVID-19;
- legal and regulatory risks inherent in the cannabis industry;
- risks associated with economic conditions, dependence on management and currency risk;
- risks relating to U.S. regulatory landscape and enforcement related to cannabis, including political risks;
- risks relating to anti-money laundering laws and regulation;
- risks relating to shortages in materials and increased costs for transportation, energy, and raw material due in part to the negative impact of the Russia-Ukraine war on the global economy;
- other governmental and environmental regulation;
- public opinion and perception of the cannabis industry;
- risks related to contracts with third-party service providers;
- risks related to the enforceability of contracts and lack of access to U.S. bankruptcy protections;
- reliance on the expertise and judgment of senior management of Acreage;
- risks related to proprietary intellectual property and potential infringement by third parties;
- the concentrated voting control of Acreage's founder and the unpredictability caused by Acreage's capital structure;
- risks relating to the management of growth;
- increasing competition in the industry;
- risks inherent in an agricultural business;
- risks relating to energy costs;
- risks associated with cannabis products manufactured for human consumption including potential product recalls;
- reliance on key inputs, suppliers and skilled labor;
- cybersecurity risks;
- ability and constraints on marketing products;
- fraudulent activity by employees, contractors and consultants;
- tax and insurance related risks;
- risks related to the economy generally;
- risk of litigation;
- conflicts of interest;
- risks relating to certain remedies being limited and the difficulty of enforcement judgments and effecting service outside of Canada;
- risks related to future acquisitions or dispositions;
- sales by existing shareholders; and
- limited research and data relating to cannabis.

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

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

- Overview—This section provides a general description of the Company's businesses, its strategic objectives, as well as developments that occurred during the three and nine months ended September 30, 2022 and 2021 that the Company believes are important in understanding its results of operations and financial condition or to disclose known trends.

- Results of Operations—This section provides an analysis of the Company's results of operations for the three and nine months ended September 30, 2022 and 2021. This analysis is presented on a consolidated basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

- Liquidity and Capital Resources—This section provides an analysis of the Company's cash flows for the three and nine months ended September 30, 2022 and 2021, as well as a discussion on the Company's outstanding debt and commitments that existed as of September 30, 2022. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund the Company's future commitments and obligations, as well as a discussion of other financing arrangements.

Overview

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

As of September 30, 2022, Acreage owned and operated a total of twenty-three dispensaries - four in New York, three in New Jersey, three in Connecticut, two in Massachusetts, two in Illinois, five in Ohio, and four in Maine. As of September 30, 2022, Acreage owned and operated a total of nine cultivation and processing facilities, one each in California, Illinois, Maine, New Jersey, New York, Ohio and Pennsylvania, respectively, and two in Massachusetts.

Strategic Priorities

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

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

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

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

Highlights from the three and nine months ended September 30, 2022:

- Subsequent to the end of the quarter, the Company entered into a new strategic arrangement with Canopy Growth that would allow Canopy Growth to acquire 100% of Acreage by i) waiving its existing Floating Share option and entering into a new Floating Share acquisition agreement; and ii) committing to exercise its Fixed Share option, all subject to required approvals and terms of the related agreements.
- Subsequent to the end of the quarter, the Company amended its $150 million credit facility to provide immediate access to $25 million and increased flexibility through updated covenants.
- Subsequent to the end of the quarter, the Company's social equity joint venture in Connecticut was approved for both a Disproportionately Impacted Area Cultivation License and an Adult-use Cannabis Retailer license.
- The Company achieved total consolidated revenue growth of 28% and 37% as compared with the three and nine months ended September 30, 2021, respectively.
- Adjusted EBITDA for the three and nine months ended September 30, 2022 was $8.8 million and $27.9 million, respectively, compared to adjusted EBITDA of $6.5 million and $16.2 million, respectively, during the same period in

2021. This marks seven consecutive quarters of positive adjusted EBITDA, further validating management's refocused strategic plan. Refer to section "Non-GAAP Information" in this Item 2 for discussion of Adjusted EBITDA as a non-GAAP measure.

- Launched Botanist Vape Cartridges and Disposables in Illinois as well as Superflux Cured Concentrates to build on reputation of national brand. Further, Superflux Won Best Vape Pen and Cartridge category in High Times Cannabis Cup Illinois with their Live Resin Margalope Cartridge.
- On July 5, 2022, the Company completed the sale of its four remaining Oregon dispensaries for total proceeds of $6.2 million with $5.85 million being satisfied by a 36 month promissory note bearing interest at a rate of 12% per annum.
- On May 3, 2022, the Company completed the sale of its cultivation facility in Medford, Oregon for total proceeds of $2.0 million.
- On May 1, 2022, the Company acquired and converted to adult use the final dispensary owned by our partner in Maine.
- On April 25, 2022, the Company commenced adult-use operations in New Jersey, offering a range of products from flagship brand The Botanist for adult-use sales.

Operational and Regulation Overview

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

COVID-19

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

In response to the outbreak, governmental authorities in the United States, Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place and social distancing. The COVID-19 outbreak and the response of governmental authorities to try to limit it are having a significant impact on the private sector and individuals, including unprecedented business, employment and economic disruptions. Management has been closely monitoring the impact of COVID-19, with a focus in the health and safety of our employees, business continuity and supporting our communities. The Company implemented various measures at the height of the pandemic to reduce the spread of the virus, such as implementing social distancing measures at its facilities. Most of these measures are no longer considered to be necessary or required; however, the Company reserves the right to implement similar precautionary measures in the future as circumstances change.

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

Results of Operations

The following table presents selected financial data derived from the unaudited condensed consolidated financial statements of the Company for the three and nine months ended September 30, 2022 and 2021. The selected financial information set out below may not be indicative of the Company's future performance.

Summary Results of Operations

in thousands, except per share amounts	Three Months Ended September 30,		Better/(Worse) 2022 vs. 2021		Nine Months Ended September 30,		Better/(Worse) 2022 vs. 2021	
	2022	2021	$	%	2022	2021	$	%
Revenues, net	$ 61,419	$ 48,152	$ 13,267	28 %	$ 179,649	$ 130,762	$ 48,887	37 %
Net operating loss	(16,435)	(6,494)	(9,941)	(153)	(15,847)	(11,444)	(4,403)	(38)
Net loss attributable to Acreage	(22,214)	(12,296)	(9,918)	(81)	(44,837)	(22,657)	(22,180)	(98)
Basic and diluted loss per share attributable to Acreage	$ (0.20)	$ (0.12)	$ (0.08)	(67)%	$ (0.41)	$ (0.22)	$ (0.19)	(86)%

Revenues, Cost of goods sold and Gross profit

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

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

in thousands	Three Months Ended September 30,		Better/(Worse) 2022 vs. 2021		Nine Months Ended September 30,		Better/(Worse) 2022 vs. 2021	
	2022	**2021**	**$**	**%**	**2022**	**2021**	**$**	**%**
Retail revenue, net	$ 48,314	$ 30,795	$ 17,519	57 %	$136,426	$ 85,038	$ 51,388	60 %
Wholesale revenue, net	12,810	17,077	(4,267)	(25)	42,342	42,634	(292)	(1)
Other revenue, net	295	280	15	5	881	3,090	(2,209)	(71)
Total revenues, net	$ 61,419	$ 48,152	$ 13,267	28 %	$179,649	$130,762	$ 48,887	37 %
Cost of goods sold, retail	(26,097)	(16,279)	(9,818)	(60)	(70,331)	(43,412)	(26,919)	(62)
Cost of goods sold, wholesale	(14,096)	(8,069)	(6,027)	(75)	(27,968)	(19,049)	(8,919)	(47)
Total cost of goods sold	$ (40,193)	$ (24,348)	$ (15,845)	(65)%	$ (98,299)	$ (62,461)	$ (35,838)	(57)%
Gross profit	$ 21,226	$ 23,804	$ (2,578)	(11)%	$ 81,350	$ 68,301	$ 13,049	19 %
Gross margin	35 %	49 %		(14)%	45 %	52 %		(7)%

n/m - Not Meaningful

Three months ended September 30, 2022 vs. 2021

Total revenues for the three months ended September 30, 2022 grew by $13,267, or 28%, compared with 2021. On a comparative basis, total revenue increased by $14,208 due to i) the acquisitions of Greenleaf Ohio in October 2021 and ii) the acquisition of certain Maine operations and offset by iii) the disposition of the Company's operations in Oregon in July 2022. Excluding these acquisitions and divestitures/closures, total revenue decreased by $941, or 2% for the three months ended September 30, 2022, as compared to 2021.

Retail revenue for the three months ended September 30, 2022 grew by $17,519, or 57%, compared with 2021. Excluding the impact of acquisitions and divestitures/closures, retail revenue increased by $4,730 or 16% for the three months ended September 30, 2022 compared to fiscal 2021. This organic growth was primarily driven by increased demand and production across various states, offset by price compression.

Wholesale revenue for the three months ended September 30, 2022 decreased by $4,267, or 25%, compared to fiscal 2021. The decreased wholesale revenue was primarily due to price compression and decreased wholesale demand in select markets, and somewhat offset by the acquisition of Greenleaf Ohio.

Retail cost of goods sold increased $9,818, or 60%, for the three months ended September 30, 2022 compared to 2021, which was generally consistent with the 57% increase in retail revenue. Price compression in select markets was offset by cost efficiencies.

Wholesale cost of goods sold increased $6,027, or 75%, for the three months ended September 30, 2022 compared to 2021, which outpaced the 25% increase in wholesale revenue. Wholesale cost of goods sold increased due to $6,286 of non-cash inventory adjustments made in the three months ended September 30, 2022 as a result of i) excess inventory in select markets

ii) reducing the carrying value of wholesale inventory to reflect the lower of cost and net realizable value and iii) increased costs due to inflation. Excluding these non-cash inventory adjustments, wholesale costs of goods sold decreased $259 or 3%.

Gross profit decreased $2,578, or 11%, for the three months ended September 30, 2022 to $21,226 from $23,804 in 2021. Gross margin decreased from 49% of revenue for the three months ended September 30, 2021 to 35% of revenue in 2022, or (14)%. Efficiencies gained from further economies of scale were unable to offset overall selling price declines, cost increases due to inflation, and the aforementioned wholesale non-cash inventory adjustments. Excluding these non-cash inventory adjustments, margin decreased to 45%.

Nine months ended September 30, 2022 vs. 2021

Total revenues for the nine months ended September 30, 2022 grew by $48,887, or 37%, compared with 2021. On a comparative basis, total revenue increased by $49,066 due to the acquisitions of (i) Greenleaf Ohio in October 2021, (ii) certain Maine operations and (iii) CWG in May 2021 and was offset by decreases of $3,428 due to the decreased performance and ultimate divestiture of the Company's operations in Oregon in July 2022 and the divestiture of Acreage Florida in April 2021. Additionally, total revenue for the prior comparative nine months ended September 30, 2021 included (i) $2,530 of previously unrecognized management fees in New Hampshire, some of which related to prior periods and (ii) a bulk wholesale sale transaction of $1,500 that did not recur. Excluding these acquisitions and divestitures/closures, the impact of total revenue declines in the Company's Oregon operations and the non-recurring transactions for the nine months ended September 30, 2021, total revenue increased by $3,249, or 3%, for the nine months ended September 30, 2022, as compared to fiscal 2021.

Retail revenue for the nine months ended September 30, 2022 grew by $51,388, or 60%, compared with 2021. Excluding the impact of acquisitions and divestitures/closures, as well as declines in the Company's Oregon operations prior to their ultimate sale, retail revenue increased by $9,790, or 12%, for the nine months ended September 30, 2022 compared to the nine months ended 2021. This organic growth was primarily driven by increased demand and production across various states.

Wholesale revenue for the nine months ended September 30, 2022 decreased slightly by $292, or 1%, compared to fiscal 2021. The relatively flat wholesale revenue was primarily due to increased capacity, coupled with maturing operations offset by price compression and decreased wholesale demand in select markets. Additionally, wholesale revenue for the nine months ended September 30, 2022 increased by $4,040 due to acquisitions that have occurred over the prior 24 months which was somewhat offset by a bulk wholesale sale transaction of $1,500 in the second quarter of 2021 that did not recur.

Retail cost of goods sold increased $26,919, or 62%, for the nine months ended September 30, 2022 compared to 2021, which was generally consistent with the 60% increase in retail revenue. Price compression in select markets was offset by cost efficiencies.

Wholesale cost of goods sold increased $8,919, or 47%, for the nine months ended September 30, 2022 compared to 2021, which outpaced the 1% decrease in wholesale revenue. Wholesale cost of goods sold increased due to $6,286 of non-cash inventory adjustments made in the nine months ended September 30, 2022 as a result of i) excess inventory in select markets, ii) reducing the carrying value of wholesale inventory to reflect the lower of cost and net realizable value and iii) increased costs due to inflation. Excluding these non-cash inventory adjustments, wholesale costs of goods sold increased $2,633 or 14%.

Gross profit increased $13,049, or 19%, for the nine months ended September 30, 2022 to $81,350 from $68,301 in 2021, and Gross margin decreased from 52% of revenue for the nine months ended September 30, 2021 to 45% of revenue in 2022, or (7)%, due to the factors discussed above. Efficiencies gained from further economies of scale were unable to offset overall selling price declines, cost increases due to inflation, and the aforementioned wholesale non-cash inventory adjustments. Excluding these non-cash inventory adjustments, margin decreased to 49%.

Revenue by geography

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

Revenue by region			**Better/(Worse)**				**Better/(Worse)**	
in thousands	**Three Months Ended September 30,**		**2022 vs. 2021**		**Nine Months Ended September 30,**		**2022 vs. 2021**	
	2022	2021	$	%	2022	2021	$	%
New England	$ 16,481	$ 19,893	$ (3,412)	(17)%	$ 49,293	$ 56,070	$ (6,777)	(12)%
Mid-Atlantic	21,235	14,694	6,541	45	56,125	43,474	12,651	29
Midwest	23,096	10,012	13,084	131	70,059	22,333	47,726	214
West	607	3,553	(2,946)	(83)	4,172	8,264	(4,092)	(50)
South	—	—	—	n/m	—	621	(621)	(100)
Total revenues, net	$ 61,419	$ 48,152	$ 13,267	28 %	$ 179,649	$ 130,762	$ 48,887	37 %

n/m - Not Meaningful

Total operating expenses

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

Operating expenses			**Better/(Worse)**				**Better/(Worse)**	
in thousands	**Three Months Ended September 30,**		**2022 vs. 2021**		**Nine Months Ended September 30,**		**2022 vs. 2021**	
	2022	2021	$	%	2022	2021	$	%
General and administrative	$ 9,727	$ 8,465	$ 1,262	15 %	$ 27,036	$ 23,067	$ 3,969	17 %
Compensation expense	15,271	10,699	4,572	43	42,045	32,236	9,809	30
Equity-based compensation expense	3,156	4,168	(1,012)	(24)	8,970	17,191	(8,221)	(48)
Marketing	735	583	152	26	2,396	992	1,404	142
Impairments, net	506	2,339	(1,833)	(78)	2,973	3,157	(184)	(6)
Loss on notes receivable	7,219	—	7,219	n/m	7,219	1,726	5,493	318
Write down (recovery) of assets held-for-sale	—	—	—	n/m	874	(8,616)	9,490	n/m
Legal settlements (recoveries)	—	—	—	n/m	(335)	322	(657)	n/m
Depreciation and amortization	1,047	4,044	(2,997)	(74)	6,019	9,670	(3,651)	(38)
Total operating expenses	$ 37,661	$ 30,298	$ 7,363	24 %	$ 97,197	$ 79,745	$ 17,452	22 %

n/m - Not Meaningful

Three months ended September 30, 2022 vs. 2021

Total operating expenses for the three months ended September 30, 2022 were $37,661, an increase of $7,363, or 24%, compared with 2021. The primary drivers of the increase in operating expenses were as follows:

- General and administrative expenses increased $1,262 during the three months ended September 30, 2022 compared with 2021, primarily due to (i) increased costs associated with the Company's expanded operations from both organic growth and acquisitions, (ii) an increases in professional fees, which was driven by professional and consulting fees incurred, and (iii) an increase in the cost of insurance.
- Compensation expense increased $4,572 during the three months ended September 30, 2022 as compared with 2021, primarily due to increased headcount required to manage the Company's expanded operations, including the acquisitions of Greenleaf during the period, as well as certain non-recurring retention payments made in the current period.
- Equity-based compensation expense decreased $1,012, or 24%, during the three months ended September 30, 2022 as compared with 2021, primarily due to benefits associated with reorganization efforts undertaken in prior periods, resulting in the acceleration of restricted share vesting for certain employees and previously issued awards becoming fully vested and cancelled in prior periods.
- Impairments, net decreased $1,833 for the nine months ended September 30, 2022 as compared with 2021, which was primarily driven by the non-recurrence of the write-off of $2,339 of capital assets at the Sewell, New Jersey locations resulting from damage by Hurricane Ida.
- Loss on notes receivable for the three months ended September 30, 2022 is due to the determination that the payment for certain notes receivables was doubtful based on the most recent information available to the Company.

- Depreciation and amortization expenses decreased by $2,997 during the three months ended September 30, 2022 compared with 2021, primarily due to an acceleration of the amortization of certain intangible assets as a result of a reduction in the expected useful lives of such assets during the three months ended September 30, 2021.

Nine months ended September 30, 2022 vs. 2021

Total operating expenses for the nine months ended September 30, 2022 were $97,197, an increase of $17,452, or 22%, compared with 2021. The primary drivers of the decrease in operating expenses were as follows:

- General and administrative expenses increased $3,969 during the nine months ended September 30, 2022 compared with 2021, primarily due to increases in (i) professional fees, which was driven by professional and consulting fees incurred, (ii) an increase in the cost of insurance, fees, permits and licenses and (iii) increased costs associated with the Company's expanded operations from both organic growth and acquisitions.
- Compensation expense increased $9,809 during the nine months ended September 30, 2022 as compared with 2021, primarily due to increased headcount required to manage the Company's expanded operations, including the acquisitions of certain Maine operations, CWG, and Greenleaf during the period, as well as certain non-recurring retention payments made in the current period.
- Equity-based compensation expense decreased $8,221, or 48%, during the nine months ended September 30, 2022 as compared with 2021, primarily due to benefits associated with reorganization efforts undertaken in prior periods, resulting in the acceleration of restricted share vesting for certain employees and previously issued awards becoming fully vested and cancelled in prior periods. Additionally, no annual grants were issued to employees under the Company's normal long-term incentive plan until July 2022 for the current year-to-date period.
- The loss on notes receivable for the nine months ended September 30, 2022 and September 30, 2021 is due to the determination that the payment for certain notes receivables were doubtful based on the most recent information available to the Company.
- Write down (recovery) of assets held-for-sale of $874 for the nine months ended September 30, 2022 related to the Company's Oregon operations, Write down (recovery) of assets held-for-sale of for the nine months ended September 30, 2021 were due to a recovery that was attributable to the Company agreeing on terms to sell Acreage Florida, and determining that the fair value less costs to sell its Acreage Florida disposal group increased $8,616 in excess of its previously written down value.
- Depreciation and amortization expenses decreased by $2,997 during the three months ended September 30, 2022 compared with 2021, primarily due to an acceleration of the amortization of certain intangible assets as a result of a reduction in the expected useful lives of such assets during the nine months ended September 30, 2021.

Total other income (loss)

Other income (loss)			**Better/(Worse)**				**Better/(Worse)**	
in thousands	**Three Months Ended September 30,**		**2022 vs. 2021**		**Nine Months Ended September 30,**		**2022 vs. 2021**	
	2022	2021	$	%	2022	2021	$	%
Income (loss) from investments, net	$ 17	$ 489	$ (472)	(97)%	$ 154	$ (777)	$ 931	n/m
Interest income from loans receivable	474	1,067	(593)	(56)	1,256	4,125	(2,869)	(70)%
Interest expense	(5,688)	(3,620)	(2,068)	(57)	(15,989)	(14,072)	(1,917)	(14)
Other income, net	4,743	80	4,663	n/m	5,019	7,825	(2,806)	(36)
Total other loss	$ (454)	$ (1,984)	$ 1,530	77 %	$ (9,560)	$ (2,899)	$ (6,661)	(230)%

n/m - Not Meaningful

Three months ended September 30, 2022 vs. 2021

Total other loss for the three months ended September 30, 2022 was $(454), a decrease of $1,530 compared with 2021. The primary drivers of the decrease in Total other income (loss) were as follows:

- Income from investments and interest income from loans receivable have declined due to the performance of certain investments held by the Company and a reduced balance of notes receivable due to repayments that have occurred over the past 15 months.
- Interest expense for the three months ended September 30, 2022 of $5,688 increased by $2,068 as a result of the Company having a larger debt balance as compared to 2021.

- Other income, net for the three months ended September 30, 2022 of $4,743 increased by $4,663 as compared with 2021. Other income, net for the three months ended September 30, 2022 was primarily related to a gain on the sale of the Company's Oregon operations of $3,189.

Nine months ended September 30, 2022 vs. 2021

Total other loss for the nine months ended September 30, 2022 was $9,560, an increase of $6,661 compared with 2021. The primary drivers of the decrease in Total other income (loss) were as follows:

- Income (loss) from investments, net of $154 for the nine months ended September 30, 2022 has increased $931 as compared with 2021 due to improved performance of certain investments held by the Company.
- Interest income from loans receivable of $1,256 for the nine months ended September 30, 2022 has declined $2,869 as compared with 2021 due to a reduction in loans receivable outstanding during the comparative period.
- Interest expense for the nine months ended September 30, 2022 of $15,989 increased by $1,917 as a result of the Company having a larger debt balance as compared to 2021, somewhat offset by a lower over blended interest rate that is payable on the Company's debt.
- Other income, net for the nine months ended September 30, 2022 of $5,019 decreased by $2,806 as compared with 2021. Other income, net for the nine months ended September 30, 2022 was primarily related to a gain on the sale of the Company's Oregon operations of $3,189. Other income, net for the nine months ended September 30, 2021 was primarily related to a gain on the sale of Acreage Florida of $11,682 and was partially offset by the loss on the subsequent sale of notes receivable received as consideration from the buyer of Acreage Florida of approximately $2,000 and by losses related to the disposal of capital assets related to Form Factory.

Net loss

Net loss			**Better/(Worse)**				**Better/(Worse)**	
in thousands	**Three Months Ended September 30,**		**2022 vs. 2021**		**Nine Months Ended September 30,**		**2022 vs. 2021**	
	2022	2021	$	%	2022	2021	$	%
Net loss	$ (24,998)	$ (14,057)	$ (10,941)	(78)%	$ (49,512)	$ (26,004)	$ (23,508)	(90)%
Less: net loss attributable to non-controlling interests	(2,784)	(1,761)	(1,023)	(58)	(4,675)	(3,347)	(1,328)	(40)
Net loss attributable to Acreage Holdings, Inc.	$ (22,214)	$ (12,296)	$ (9,918)	(81)%	$ (44,837)	$ (22,657)	$ (22,180)	(98)%
n/m - Not Meaningful								

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

Non-GAAP Information

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

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

Adjusted EBITDA			Better/(Worse)				Better/(Worse)	
in thousands	Three Months Ended September 30,		2022 vs. 2021		Nine Months Ended September 30,		2022 vs. 2021	
	2022	2021	$	%	2022	2021	$	%
Net loss (U.S. GAAP)	**$ (24,998)**	**$ (14,057)**			**$ (49,512)**	**$ (26,004)**		
Income tax expense	8,109	5,579			24,105	11,661		
Interest expense, net	5,214	2,553			14,733	9,947		
Depreciation and amortization[1]	2,583	4,590			9,930	11,384		
EBITDA (non-GAAP)	**$ (9,092)**	**$ (1,335)**	**$ (7,757)**	**n/m**	**$ (744)**	**$ 6,988**	**$ (7,732)**	**(111)%**
Adjusting items:								
Loss (income) from investments, net	(17)	(489)			(154)	777		
Impairments, net	506	—			2,596	818		
Non-cash inventory adjustments	6,286	—			6,286	—		
Loss on extraordinary events[2]	—	2,339			376	2,339		
Loss on notes receivable	7,219	—			7,219	1,726		
Write down (recovery) of assets held-for-sale	—	—			874	(8,616)		
Legal settlements, net	—	—			(335)	322		
Gain on business divestiture	(3,200)	(109)			(3,496)	(11,791)		
Equity-based compensation expense	3,156	4,168			8,970	17,191		
Other non-recurring expenses[3]	3,989	1,924			6,267	6,425		
Adjusted EBITDA (non-GAAP)	**$ 8,847**	**$ 6,498**	**$ 2,349**	**36 %**	**$ 27,859**	**$ 16,179**	**$ 11,680**	**72 %**
n/m - Not Meaningful								

[1] Depreciation and amortization as of September 30, 2021 contains depreciation and amortization included in cost of goods sold.
[2] Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence.
[3] Other non-recurring expenses relates to certain compensation, general and administrative, and other miscellaneous expenses. The Company excludes these items as they are not expected to recur.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources and uses of cash

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

As of September 30, 2022, the Company had cash of $26,476 (not including $95 of restricted cash). The Company's ability to fund its operations, capital expenditures, acquisitions, and other obligations depends on its future operating performance and ability to obtain financing, which are subject to prevailing economic conditions, as well as financial, business and other factors, some of which are beyond the Company's control.

The Company's future contractual obligations include the following:

Leases

As of September 30, 2022, the Company had future operating lease obligations and future finance lease obligations of $38,866 and $21,365, respectively, with $1,147 and $5,858 payable within the remaining three months, respectively. The Company leases land, buildings, equipment and other capital assets which it plans to use for corporate purposes in addition to the production and sale of cannabis products. Leases with an initial term of 12 months or less are not recorded on the Unaudited Condensed Consolidated Statements of Financial Position and are expensed in the Unaudited Condensed Consolidated Statements of Operations on the straight-line basis over the lease term. The Company does not have any material variable lease payments, and accounts for non-lease components separately from leases. Refer to Note 8 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

Debt

As of September 30, 2022, the Company had outstanding debt with varying maturities for an aggregate principal amount of $202,092, with $6,426 payable within the remaining three months. The Company has related future interest payments of $65,469, with $4,134 payable within the remaining three months. Refer to Note 10 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

The Company expects that its total readily available funds of $26,476 as of September 30, 2022 and its further ability to obtain private and/or public financing, will be adequate to support the future obligations discussed above as well as the capital needs of the existing operations and expansion plans over the next twelve months. Additionally, subsequent to the end of the quarter, the Company amended its $150 million credit facility to provide immediate access to $25 million of the committed accordion with further access to the remaining $25 million of the committed accordion available on January 1, 2023 provided certain predetermined milestones are achieved. Refer to Note 2 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

Cash flows

Cash and cash equivalents, restricted cash, and cash held for sale were $26,571 as of September 30, 2022, which represents a net decrease of $17,930 for the nine months ended September 30, 2022. The following table details the change in cash, cash equivalents, restricted cash and cash related to assets held for sale for the nine months ended September 30, 2022 and 2021.

Cash flows			**Better/(Worse)**	
in thousands	**Nine Months Ended September 30,**		**2022 vs. 2021**	
	2022	2021	$	%
Net cash used in operating activities	$ (30,473)	$ (18,312)	$ (12,161)	(66)%
Net cash provided by (used in) investing activities	(5,328)	34,152	(39,480)	n/m
Net cash provided by (used in) financing activities	17,871	(40,995)	58,866	n/m
Net decrease in cash, cash equivalents, restricted cash, and cash held for sale	$ (17,930)	$ (25,155)	$ 7,225	29 %

n/m - Not Meaningful

Net cash used in operating activities

During the nine months ended September 30, 2022, the Company used $30,473 of net cash in operating activities, which represented an increase of $12,161, or 66%, when compared with 2021. Although the reported net loss increased by $23,508 during the nine months ended September 30, 2022 when compared to the same period of 2021, the net loss excluding non-cash items such as impairments, equity based compensation, write-offs and recoveries, gains and losses on disposals and depreciation and amortization increased by $10,044 when compared to the same period of 2021. Additionally, cash used in operating activities for the nine months ended September 30, 2021 benefited from a difference in the timing of tax payments.

Net cash provided by (used in) investing activities

During the nine months ended September 30, 2022, the Company used $5,328 of net cash through investing activities compared to $34,152 of net cash provided by investing activities for the nine months ended September 30, 2021, which represented a change of $39,480. Net cash used in investing activities for the nine months ended September 30, 2022 included (i) $12,582 on the purchase of capital assets and intangibles and (ii) $3,400 paid for short-term investments, which was partially offset by (iii) the collection of notes receivable of $7,106. Net cash provided by investing activities for the nine months ended September 30, 2021 included (i) proceeds from the sale of promissory notes for $26,000, (ii) proceeds from business divestitures if $24,407, and (iii) the collection of notes receivable of $13,225, which was partially offset by (iv) $27,535 on the purchase of capital assets and intangibles.

Net cash provided by (used in) financing activities

During the nine months ended September 30, 2022, the Company had $17,871 of net cash provided by financing activities compared to $40,995 of net cash used in financing activities for the nine months ended September 30, 2021, which represented a change of $58,866. Net cash provided by financing activities for the nine months ended September 30, 2022 included (i) $24,489 of net proceeds from financing and was partially offset by (ii) $5,534 of capital distributions to non-controlling interest repayments of debt, and (iii) $1,084 of repayments of debt. Net cash used in financing activities for the nine months ended September 30, 2021 included (i) 46,321 of repayments of debt and was partially offset by (ii) $6,301 of net proceeds from financing.

Capital Resources

Capital structure and debt

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

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**

Commitments and contingencies

Commitments

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

Arrangement with Canopy Growth

On June 19, 2019, the shareholders of the Company and of Canopy Growth separately approved the Prior Plan of Arrangement involving the two companies. Subsequently, on September 23, 2020, Acreage and Canopy Growth entered into an amending agreement and the Amended Arrangement became effective on September 23, 2020.

Subsequent to September 30, 2022,the Company entered into a new strategic arrangement with Canopy Growth that, would allow Canopy Growth to acquire 100% of Acreage by i) waiving its existing Floating Share option and entering into a new Floating Share acquisition agreement; and ii) committing to exercise its Fixed Share option, all subject to required approvals and terms of the related agreements.

Refer to Notes 13 and 17 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

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.

Tax Receivable Agreement

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.

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, such amounts were not material.

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company's applicable subsidiaries ceasing operations. While management of the Company believes that the Company's subsidiaries are in compliance with applicable local and state regulations as of 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. Refer to Note 13 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

Critical accounting policies and estimates

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

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

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

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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