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 in April 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.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

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

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

**Holders**

As of April 14, 2023, there were 828 holders of record of the Fixed Shares and 818 holders of record of the Floating Shares, including CDS & Co. and Cede & Co., which are the nominees for holding shares on behalf of brokerage firms in Canada and the U.S., respectively, each as a single holder of record.

**Item 6. Reserved.**

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

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

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

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

- Overview—This section provides a general description of the Company's businesses, its strategic objectives, as well as developments that occurred during the years ended December 31, 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 years ended December 31, 2022, 2021 and 2020. This analysis is presented on a consolidated basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

- Liquidity and Capital Resources—This section provides an analysis of the Company's cash flows for the years ended December 31, 2022, 2021 and 2020, as well as a discussion on the Company's outstanding debt and commitments that existed as of December 31, 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.

- Critical Accounting Policies and Estimates—This section provides a summary of the estimates and assumptions management believes could have a significant impact on our financial statements. For a summary of our significant accounting policies, refer to Note 2 of the Consolidated Financial Statements for further discussion.

**Overview**

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

As of December 31, 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 December 31, 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.

<u>Strategic Priorities</u>

The Company believes its focused strategy is the key to continued improvements in its financial results and shareholder value. For the past few years, the Company was focused on three key strategic objectives - accelerating growth in its core markets, driving profitability, and strengthening the balance sheet. For 2023 and onwards, the Company has modified its strategic objectives in response to Company and industry developments - focus on cash, accelerate growth in core markets with core brands and prepare for Canopy USA.

*Focus on Cash*: A combination of economic conditions, lack of regulatory change and industry competition impacting pricing has negatively impacted the Company’s ability to generate cash flow to support operational requirements and capital activities. Additionally, these factors have likely limited the additional capital that might be available to the Company. While these factors continue, the Company will focus on maximizing the cash flow generated by operating activities and limit capital expenditures to only those projects that can be funded from existing resources and are expected to generate near-term returns.

*Accelerating Growth in Core Markets with Core Brands*: 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. Additionally, the Company has developed a portfolio of core brands that resonate with its customers. The Company will focus on ensuring that these core brands feature prominently in the markets where they are available.

*Prepare for Canopy USA:* During the fourth quarter of 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. (see Part I, Item 1. Business - “Canopy Growth Corporation Arrangement”). Throughout 2023, the Company will take all steps necessary to prepare for the eventual closing of this transactions.

<u>Highlights from the year ended December 31, 2022</u>:

- On October 24, 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 the required shareholder and regulatory approvals and other closing conditions as described in the related agreements.
- On October 24, 2022, the Company amended its existing credit facility to provide immediate access to $25 million and increased flexibility through revised covenants. Subsequent to year end, the facility was further amended to allow for an additional draw of $15 million to be used for capital expenditures and to limit the total draws under the facility to $140 million.

- During the fourth quarter of 2022, the Company's social equity joint ventures with our social equity partner 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 26% as compared with the year ended December 31, 2021.
- Adjusted EBITDA for the year ended December 31, 2022 was $34.8 million, compared to adjusted EBITDA of $24.6 million during the same period in 2021. This marks eight 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 our flagship brand The Botanist for adult-use sales.

Operational and Regulation Overview (all amounts in thousands, except per share amounts)

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

**Results of Operations**

The following table presents selected financial data derived from the consolidated financial statements of the Company for the years ended December 31, 2022, 2021 and 2020. The selected financial information set out below may not be indicative of the Company's future performance.

Summary Results of Operations

| in thousands, except per share amounts | Year Ended December 31, | | | Better/(Worse) 2022 vs. 2021 | | Better/(Worse) 2021 vs. 2020 | |
|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2020 | $ | % | $ | % |
| Revenues, net | $ 237,138 | $ 188,859 | $ 114,545 | $ 48,279 | 26 % | $ 74,314 | 65 % |
| Net operating loss | (143,093) | (47,071) | (364,811) | (96,022) | (204) | 317,740 | 87 |
| Net loss attributable to Acreage | (139,876) | (63,010) | (286,588) | (76,866) | (122) | 223,578 | 78 |
| Basic and diluted loss per share attributable to Acreage | $ (1.28) | $ (0.60) | $ (2.92) | $ (0.68) | (113)% | $ 2.32 | 79 % |

Revenues, Cost of goods sold and Gross profit

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

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

| in thousands | Year Ended December 31, | | | Better/(Worse) 2022 vs. 2021 | | Better/(Worse) 2021 vs. 2020 | |
|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2020 | $ | % | $ | % |
| Retail revenue, net | $ 181,479 | $ 127,306 | $ 86,380 | $ 54,173 | 43 % | $ 40,926 | 47 % |
| Wholesale revenue, net | 54,499 | 58,183 | 27,971 | (3,684) | (6) | 30,212 | 108 |
| Other revenue, net | 1,160 | 3,370 | 194 | (2,210) | (66) | 3,176 | n/m |
| Total revenues, net | $ 237,138 | $ 188,859 | $ 114,545 | $ 48,279 | 26 % | $ 74,314 | 65 % |
| Cost of goods sold, retail | (94,783) | (65,776) | (51,018) | (29,007) | (44) | (14,758) | (29) |
| Cost of goods sold, wholesale | (40,610) | (27,201) | (14,369) | (13,409) | (49) | (12,832) | (89) |
| Total cost of goods sold | $(135,393) | $ (92,977) | $ (65,387) | $ (42,416) | (46)% | $ (27,590) | (42)% |
| Gross profit | $ 101,745 | $ 95,882 | $ 49,158 | $ 5,863 | 6 % | $ 46,724 | 95 % |
| Gross margin | 43 % | 51 % | 43 % | | (8)% | | 8 % |

**n/m - Not Meaningful**

*Year ended December 31, 2022 vs. 2021*

Total revenues for the year ended December 31, 2022 grew by $48,279, or 26%, compared with 2021. On a comparative basis, total revenue increased by $49,606 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 $4,790 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 year ended December 31, 2021 included (i) $2,530 of previously unrecognized management fees, 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 year ended December 31, 2021, total revenue increased by $7,493, or 4%, for the year ended December 31, 2022, as compared to fiscal 2021.

Retail revenue for the year ended December 31, 2022 grew by $54,173, or 43%, 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 $13,397, or 11%, for the year ended December 31, 2022 compared to the year ended 2021. This organic growth was primarily driven by increased demand and production across various states.

Wholesale revenue for the year ended December 31, 2022 decreased by $3,684, or 6%, compared to fiscal 2021. The modest decline in wholesale revenue was primarily due to price compression and decreased wholesale demand in select markets. Additionally, wholesale revenue for the year ended December 31, 2022 increased by $4,040 due to acquisitions that have occurred over the prior 24 months which were 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 $29,007, or 44%, for the year ended December 31, 2022 compared to 2021, which was generally consistent with the 43% increase in retail revenue. Price compression in select markets was offset by cost efficiencies.

Wholesale cost of goods sold increased $13,409, or 49%, for the year ended December 31, 2022 compared to 2021, which outpaced the 6% decrease in wholesale revenue. Wholesale cost of goods sold increased due to $11,145 of non-cash inventory adjustments made in the year ended December 31, 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 $2,264 or 8%. Cost increases and product mix shifts drove the increase in wholesale cost of goods sold.

Gross profit increased $5,863, or 6%, for the year ended December 31, 2022 to $101,745 from $95,882 in 2021, and Gross margin decreased from 51% of revenue for the year ended December 31, 2021 to 43% of revenue in 2022, or (8)%, 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 the non-cash inventory adjustments, margin decreased to 47%.

*Year ended December 31, 2021 vs. 2020*

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

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

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

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

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

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

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

*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 | **Year Ended December 31,** | | | **2022 vs. 2021** | | **2021 vs. 2020** | |
| | 2022 | 2021 | 2020 | $ | % | $ | % |
| New England | $ 63,969 | $ 73,925 | $ 48,325 | $ (9,956) | (13)% | $ 25,600 | 53 % |
| Mid-Atlantic | 77,217 | 58,869 | 37,300 | 18,348 | 31 | 21,569 | 58 |
| Midwest | 91,437 | 43,764 | 17,347 | 47,673 | 109 | 26,417 | 152 |
| West | 4,515 | 11,680 | 10,206 | (7,165) | (61) | 1,474 | 14 |
| South | — | 621 | 1,367 | (621) | (100) | (746) | (55) |
| Total revenues, net | $ 237,138 | $ 188,859 | $ 114,545 | $ 48,279 | 26 % | $ 74,314 | 65 % |

**n/m - Not Meaningful**

<u>Total operating expenses</u>

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

| **Operating expenses** | | | | **Better/(Worse)** | | **Better/(Worse)** | |
|---|---|---|---|---|---|---|---|
| in thousands | **Year Ended December 31,** | | | **2022 vs. 2021** | | **2021 vs. 2020** | |
| | 2022 | 2021 | 2020 | $ | % | $ | % |
| General and administrative | $ 38,248 | $ 32,026 | $ 50,469 | $ (6,222) | (19)% | $ 18,443 | 37 % |
| Compensation expense | 55,905 | 45,769 | 41,704 | (10,136) | (22) | (4,065) | (10) |
| Equity-based compensation expense | 10,138 | 19,946 | 92,064 | 9,808 | 49 | 72,118 | 78 |
| Marketing | 3,204 | 1,643 | 1,820 | (1,561) | (95) | 177 | 10 |
| Impairments, net | 121,706 | 32,828 | 188,023 | (88,878) | (271) | 155,195 | 83 |
| Loss on notes receivable | 7,219 | 7,869 | 8,161 | 650 | 8 | 292 | 4 |
| Write down (recovery) of assets held-for-sale | 874 | (8,616) | 11,003 | (9,490) | n/m | 19,619 | n/m |
| Legal settlements (recoveries) | (335) | 372 | 14,555 | 707 | n/m | 14,183 | 97 |
| Depreciation and amortization | 7,879 | 11,116 | 6,170 | 3,237 | 29 | (4,946) | (80) |
| Total operating expenses | $ 244,838 | $ 142,953 | $ 413,969 | $ (101,885) | (71)% | $ 271,016 | 65 % |

**n/m - Not Meaningful**

*Year ended December 31, 2022 vs. 2021*

Total operating expenses for the year ended December 31, 2022 were $244,838, an increase of $101,885, or 71%, compared with 2021. The primary drivers of the increase in operating expenses were as follows:

- General and administrative expenses increased $6,222 during the year ended December 31, 2022 compared with 2021, primarily due to increases in (i) costs associated with the Company's expanded operations from both organic growth and acquisitions, (ii) professional fees, which was driven by professional and consulting fees incurred and (iii) an increase in the cost of insurance, fees, permits and licenses.
- Compensation expense increased $10,136 during the year ended December 31, 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 $9,808, or 49%, during the year ended December 31, 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.
- Impairments, net of $121,706 for the year ended December 31, 2022 was primarily driven by $100,866 of impairments charges related to intangible assets and $16,590 of impairment charges related to goodwill, respectively.
- The loss on notes receivable for the year ended December 31, 2022 and December 31, 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 year ended December 31, 2022 related to the Company's Oregon operations, Write down (recovery) of assets held-for-sale of for the year ended December 31, 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 $3,237 during the three months ended December 31, 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 year ended December 31, 2021.

*Year ended December 31, 2021 vs. 2020*

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

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

- Compensation expense increased $4,065 during the year ended December 31, 2021 as compared with 2020, primarily due to increased headcount required to manage the Company's expanded operations, including the acquisitions of certain Maine operations, CWG, and Greenleaf during the period, partially offset by reorganization efforts and divestitures during the current and prior periods.
- Equity-based compensation expense decreased $72,118, or 78%, during the year ended December 31, 2021 as compared with 2020, primarily due to benefits associated with reorganization efforts undertaken in prior periods, resulting in the acceleration of restricted share vesting for certain employees and previously issued awards becoming fully vested and cancelled in prior periods.
- Impairments, net of $32,828 for the year ended December 31, 2021 was primarily driven by $26,601 and $995 in write-offs and write-downs on abandoned intangible and capital assets and the related deferred tax liabilities, respectively, associated with entities previously held-for-sale, $2,130 in write-offs, net of insurance proceeds, related to capital assets at the Sewell, New Jersey locations damaged by Hurricane Ida, $2,284 in losses on the disposal of capital assets during the period, and $817 associated the revision of the management contract with Prime Alternative Treatment Center Consulting, LLC ("PATCC").
- The loss on notes receivable of $7,869 for the year ended December 31, 2021 is driven by the determination that payment for certain notes receivables is doubtful based on the most recent information available to the Company. For such notes, a provision was established against them, resulting in the losses recognized.
- During the year ended December 31, 2020, the Company determined certain businesses and assets met the held-for-sale criteria. In accordance with ASC 360-10, *Property, Plant and Equipment*, the assessed disposal groups for such assets held-for-sale were written down to fair value less costs to sell, resulting in the recognition of a charges. During the year ended December 31, 2021, the Company sold Acreage Florida, and determined that the fair value less costs to sell of its Acreage Florida disposal group increased $8,616 in excess of its previously written down value. Accordingly, the Company recognized a recovery of assets held-for-sale related to its Acreage Florida disposal group. Refer to Note 3 in the Consolidated Financial Statements for further discussion of the divestiture.
- During the year ended December 31, 2020, the Company recorded a charge of $14,555 due to the recognition of litigation accruals for various matters. No such provision was required for the year ended December 31, 2021.
- Depreciation and amortization expenses increased $4,946 during the year ended December 31, 2021 compared with 2020, primarily due to an acceleration of the amortization of certain intangible assets as a result of a reduction in the expected useful lives of such assets.

Total other income (loss)

| **Other income (loss)** | | | | **Better/(Worse)** | | **Better/(Worse)** | |
|---|---|---|---|---|---|---|---|
| in thousands | **Year Ended December 31,** | | | **2022 vs. 2021** | | **2021 vs. 2020** | |
| | 2022 | 2021 | 2020 | $ | % | $ | % |
| Income (loss) from investments, net | $ 241 | $ (3,549) | $ 98 | $ 3,790 | n/m | $ (3,647) | n/m |
| Interest income from loans receivable | 1,619 | 4,824 | 6,695 | (3,205) | (66)% | (1,871) | (28) |
| Interest expense | (24,036) | (19,964) | (15,853) | (4,072) | (20) | (4,111) | (26) |
| Other income (loss), net | 6,596 | 10,408 | (3,487) | (3,812) | (37) | 13,895 | n/m |
| Total other loss | $ (15,580) | $ (8,281) | $ (12,547) | $ (7,299) | (88)% | $ 4,266 | 34 % |
| **n/m - Not Meaningful** | | | | | | | |

*Year ended December 31, 2022 vs. 2021*

Total other loss for the year ended December 31, 2022 was $15,580, an increase of $7,299 compared with 2021. The primary drivers of the decrease in Total other income (loss) were as follows:

- Income (loss) from investments, net of $241 for the year ended December 31, 2022 has increased $3,790 as compared with 2021 due to improved performance of certain investments held by the Company.
- Interest income from loans receivable of $1,619 for the year ended December 31, 2022 has declined $3,205 as compared with 2021 due to a reduction in loans receivable outstanding during the comparative period.
- Interest expense for the year ended December 31, 2022 of $24,036 increased by $4,072 as a result of the Company having a larger debt balance as compared to 2021.

- Other income, net for the year ended December 31, 2022 of $6,596 decreased by $3,812 as compared with 2021. Other income, net for the year ended December 31, 2022 was primarily related to a gain on the sale of the Company's Oregon operations of $3,189. Other income, net for the year ended December 31, 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.

*Year ended December 31, 2021 vs. 2020*

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

- Loss from investments, net of $3,549 for the year ended December 31, 2021 was primarily due to declines in the fair market value of investments in entities where the Company does not have significant influence or control.
- Interest income from loans receivable of $4,824 for the year ended December 31, 2021 has declined $1,871 as compared with 2020 due to a reduction in loans receivable outstanding during the period.
- Interest expense, net of $19,964 increased $4,111 during the year ended December 31, 2021 as compared with 2020, primarily due to the Company's increased debt financing transactions, partially related to ongoing construction projects, and the Company's refinancing of debt in December, 2021, partially offset by reduced rates of interest on the Company's debt obligations for the year ended December 31, 2021.
- Other income for the year ended December 31, 2021 of $10,408 included a gain on the sale of Acreage Florida of $11,682, which was partially offset by a net loss of approximately $2,000 on the subsequent sale of notes receivable received as consideration from the buyer of Acreage Florida.

Net loss

| **Net loss** | | | | **Better/(Worse)** | | **Better/(Worse)** | |
|---|---|---|---|---|---|---|---|
| in thousands | **Year Ended December 31,** | | | **2022 vs. 2021** | | **2021 vs. 2020** | |
| | 2022 | 2021 | 2020 | $ | % | $ | % |
| Net loss | $(168,695) | $ (73,157) | $(360,118) | $ (95,538) | (131)% | $ 286,961 | 80 % |
| Less: net loss attributable to non-controlling interests | (28,819) | (10,147) | $ (73,530) | (18,672) | (184) | 63,383 | 86 |
| Net loss attributable to Acreage Holdings, Inc. | $(139,876) | $ (63,010) | $(286,588) | $ (76,866) | (122)% | $ 223,578 | 78 % |
| **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 | **Year Ended December 31,** | | | **2022 vs. 2021** | | **2021 vs. 2020** | |
| | 2022 | 2021 | 2020 | $ | % | $ | % |
| **Net loss (U.S. GAAP)** | **$ (168,695)** | **$ (73,157)** | **$ (360,118)** | | | | |
| Income tax expense | 10,022 | 17,805 | (17,240) | | | | |
| Interest expense, net | 22,417 | 15,140 | 9,158 | | | | |
| Depreciation and amortization[(1)] | 14,818 | 14,276 | 6,170 | | | | |
| **EBITDA (non-GAAP)** | **$ (121,438)** | **$ (25,936)** | **$ (362,030)** | **$ (95,502)** | **368 %** | **$ 336,094** | **93 %** |
| Adjusting items: | | | | | | | |
| Loss (income) from investments, net | (241) | 3,549 | (98) | | | | |
| Impairments, net | 121,330 | 30,698 | 188,023 | | | | |
| Non-cash inventory adjustments | 11,145 | — | — | | | | |
| Loss on extraordinary events[(2)] | 376 | 2,130 | — | | | | |
| Loss on notes receivable | 7,219 | 7,869 | 8,161 | | | | |
| Write down (recovery) of assets held-for-sale | 874 | (8,616) | 11,003 | | | | |
| Legal settlements, net | (335) | 372 | 14,555 | | | | |
| Gain on business divestiture | (4,006) | (11,802) | — | | | | |
| Equity-based compensation expense | 10,138 | 19,946 | 92,064 | | | | |
| Transaction costs | — | — | 3,114 | | | | |
| Other non-recurring expenses[(3)] | 9,786 | 6,428 | 15,701 | | | | |
| **Adjusted EBITDA (non-GAAP)** | **$ 34,848** | **$ 24,638** | **$ (29,507)** | **$ 10,210** | **41 %** | **$ 54,145** | **n/m** |

**n/m - Not Meaningful**

(1) Depreciation and amortization for the years ended December 31, 2022 and 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 (all amounts in thousands, except per share amounts)***

The Company's primary uses of capital include operating expenses, income taxes, capital expenditures and the servicing of outstanding debt. The Company's primary sources of capital include funds generated by cannabis sales as well as financing activities. Through December 31, 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 December 31, 2022, the Company had cash of $24,067. The Company's ability to fund its operations, capital expenditures, acquisitions, and other obligations depends on its future operating performance and ability to obtain financing, which are subject to prevailing economic conditions, as well as financial, business and other factors, some of which are beyond the Company's control.

The Company's future contractual obligations include the following:

*Leases*

As of December 31, 2022, the Company had future operating lease obligations and future finance lease obligations of $37,135 and $15,507, respectively, with $4,518 and $722 payable within the next twelve months, respectively. The Company leases land, buildings, equipment and other capital assets which it plans to use for corporate purposes in addition to the production and sale of cannabis products. Leases with an initial term of 12 months or less are not recorded on the Consolidated Statements of Financial Position and are expensed in the Consolidated Statements of Operations on the straight-line basis over the lease term. The Company does not have any material variable lease payments, and accounts for non-lease components separately from leases. Refer to Note 8 of the Consolidated Financial Statements for further discussion.

*Debt*

As of December 31, 2022, the Company had outstanding debt with varying maturities for an aggregate principal amount of $215,080 (net of $16,645 of unamortized discounts and debt issuance costs), with $1,584 payable within the remaining twelve months. The Company has related future interest payments of $78,903, with $21,667 payable within the remaining twelve months. In March 2023, the Company reached an agreement with its lenders that would allow it to draw a further $15,000 under its current Credit Agreement, but such funds would be restricted for use to only eligible capital expenditures. As part of this agreement, the Company has agreed to not draw additional funds under the Credit Agreement. Refer to Notes 10 and 18 of the Consolidated Financial Statements for further discussion.

The Company expects that its total readily available funds of $24,067 as of December 31, 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, the Company has a further $15,000 of long-term debt available from its committed debt facilities, but such funds are restricted for use to only eligible capital expenditures. Further, in February 2023, the Company filed for certain Employee Retention Tax Credits ("ERTC") where we expect to receive approximately $15,000, less applicable agent fees and other expenses. On April 11, 2023, the Company sold, with recourse, the rights to receive certain Employee Retention Tax Credits ("ERTC") with an aggregate receivable value of $14.3 million for total proceeds of $12.1 million. Refer to Note 2 of the Consolidated Financial Statements for further discussion.

***Cash flows***

Cash and cash equivalents, restricted cash, and cash held for sale were $24,067 as of December 31, 2022, which represents a net decrease of $20,434 for the year ended December 31, 2022. The following table details the change in cash, cash equivalents, restricted cash and cash related to assets held for sale for the year ended December 31, 2022 and 2021.

| **Cash flows**<br>in thousands | **Year Ended December 31,** | | | **Better/(Worse) 2022 vs. 2021** | | **Better/(Worse) 2021 vs. 2020** | |
|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2020 | $ | % | $ | % |
| Net cash used in operating activities | $ (50,095) | $ (40,530) | $ (67,678) | $ (9,565) | (24)% | $ 27,148 | 40 % |
| Net cash provided by (used in) investing activities | (9,609) | 43,369 | (69,302) | (52,978) | n/m | 112,671 | n/m |
| Net cash provided by (used in) financing activities | 39,270 | (12,977) | 165,019 | 52,247 | n/m | (177,996) | n/m |
| Net increase (decrease) in cash, cash equivalents, restricted cash, and cash held for sale | $ (20,434) | $ (10,138) | $ 28,039 | $ (10,296) | (102)% | $ (38,177) | n/m |

**n/m - Not Meaningful**

Net cash used in operating activities

During the year ended December 31, 2022, the Company used $50,095 of net cash in operating activities, which represented an increase of $9,565, or 24%, when compared with 2021. Although the reported net loss increased by $95,538 during the year ended December 31, 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 $12,159 when compared to the same period of 2021. Additionally, cash used in operating activities for the year ended December, 2021 benefited from a difference in the timing of tax payments.

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

Net cash provided by (used in) investing activities

During the year ended December 31, 2022, the Company used $9,609 of net cash through investing activities compared to $43,369 of net cash provided by investing activities for 2021, which represented a change of $52,978. Net cash used in investing activities for the year ended December 31, 2022 included (i) $19,382 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 $8,356, (iv) $3,400 in proceeds from the disposal of short-term investments, and (v) $1,417 in distributions from investments.

During the year ended December 31, 2021, the Company provided $43,369 of net cash through investing activities. Net cash provided by investing activities during 2021 included (i) $54,607 of proceeds from divestitures and the related sales of promissory notes (ii) $14,033 of proceeds from the collection of notes receivable and (iii) $7,000 of insurance proceeds which was partially offset by $33,249 spent on capital expenditures to build out the Company's owned operations.

During the year ended December 31, 2020, the Company used $69,302, of net cash through investing activities. Net cash used in investing activities during 2020 was primarily driven by the long-term investments of $35,067, the acquisition of CCF for $9,983, net of cash acquired, $15,477 spent on capital expenditures to build out our owned operations and $14,809 advanced to entities, net of collections. This was partially offset by proceeds received from the sale of capital assets and the proceeds from the sale of Acreage North Dakota, LLC for $4,756 and $997, respectively.

Net cash provided by (used in) financing activities

During the year ended December 31, 2022, the Company had $39,270 of net cash provided by financing activities compared to $12,977 of net cash used in financing activities for 2021, which represented a change of $52,247. Net cash provided by financing activities for the year ended December 31, 2022 included (i) $46,685 of net proceeds from financing and was partially offset by (ii) $5,534 of capital distributions to non-controlling interest and (iii) $1,881 of repayments of debt.

During the year ended December 31, 2021, the Company used $12,977, of net cash through Financing activities. Net cash used in financing activities during 2021 included (i) repayment of debt of $91,039 and was partially offset by $81,407 related to financing proceeds.

During the year ended December 31, 2020, the Company provided $165,019 of net cash through financing activities. Net cash provided by financing activities during 2020 was primarily driven by proceeds from raising $31,117 as a result of the proceeds from a private placement and the issuance of warrants, $160,587 related to financing proceeds, $7,100 of related party debt proceeds, as well as $22,000 related to collateral received pursuant to a portion of the financing proceeds. This is partially offset by the repayment debt of $25,821, repayment of short-term related party debt of $22,100 as well as payments of deferred financing costs of $7,864.

## Capital Resources

### *Capital structure and debt*

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

| **Debt balances** | | **December 31, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| Financing liability (failed sale-leaseback) | $ | 15,253 | $ | 15,253 |
| Finance lease liabilities | | 5,306 | | 5,245 |
| 7.50% Loan due April 2026 | | 31,288 | | 30,763 |
| 6.10% Secured debenture due September 2030 | | 46,502 | | 46,050 |
| Note due December 2024 | | 3,167 | | 4,750 |
| Prime rate credit facilities due January 2026, as amended | | 113,564 | | 68,673 |
| **Total debt** | **$** | **215,080** | **$** | **170,734** |
| Less: current portion of debt | | 1,584 | | 1,583 |
| **Total long-term debt** | **$** | **213,496** | **$** | **169,151** |

### *Commitments and contingencies*

Commitments

The Company provides revolving lines of credit to several third parties. Refer to Note 6 of the 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.

During the fourth quarter of 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 Note 13 of the 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. During the fourth quarter of 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, certain current and former unit holders of HSCP and, Canopy Growth and Canopy USA 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, consultants of the Company, Canopy Growth and Canopy USA (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 December 31, 2022, for which no liabilities are recorded on the Consolidated Statements of Financial Position.

The Company is subject to other capital commitments and similar obligations. As of December 31, 2022 and 2021, 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 December 31, 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 Consolidated Financial Statements for further discussion.

**Critical accounting policies and estimates**

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

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

Taxes

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

Business combinations

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

Inventory valuation

Inventory is valued at the lower of cost and net realizable value, defined as estimated selling price in the ordinary cost of business, less costs of disposal. The valuation of our inventory balances involves calculating the estimated net realizable value of our inventory and assessing it against the cost. A component of this analysis therefore involves determining whether there is excess, slow-moving or obsolete inventory on hand.

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

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

Impairment on notes receivable

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

Impairment of intangible assets

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

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

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

As of December 31, 2022, our goodwill held at our single reportable segment was $13,761.

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

- Revenue multiples of comparable industry peers.
- Expected proceeds from a sale in an orderly transaction.
- Expected cash flows based on our business plans for the reporting units and underlying assets.
- In order to risk-adjust the cash flow projections in determining value in use, we utilized an after-tax discount rate of approximately 12.74%.

Management assigned value to each input based on past experience and industry expectations. The tests performed through the year ended December 31, 2022 resulted in the impairment of certain finite and indefinite-lived intangible assets. Refer to Note 4 of the Consolidated Financial Statements for further discussion. The Company does not believe a slight change in the key assumptions would cause the recoverable amount of any non-impaired reporting unit to fall below its carrying amount.

Emerging growth company status

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

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

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

Equity-based compensation

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

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

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

Regulatory Disclosures

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

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

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

Market risk

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

Credit risk

The Company's exposure to non-payment or non-performance by its counterparties is a credit risk. The maximum credit exposure as of December 31, 2022 is the carrying amount of cash and cash equivalents, restricted cash, and accounts, notes and other receivables. The Company does not have significant credit risk with respect to customers. The Company mitigates its credit risk on its notes and other receivables by securing collateral, such as capital assets, and by its review of the counterparties and their businesses. The Company considers a variety of factors when determining interest rates for notes receivable, including the creditworthiness of the counterparty, market interest rates prevailing at the note's origination, and duration and terms of the note. The Company determined expected credit losses to be immaterial due to collateral held. Analysis of collateral held and future expected cash flows within the cannabis industry were considered in its expected credit loss assessment.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company endeavors to ensure that there is sufficient liquidity in order to meet short-term business requirements, after taking into account the Company's cash holdings. As of December 31, 2022, the Company's financial liabilities consist of accounts payable and accrued liabilities, lease liabilities and long-term debt. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis.

As reflected in the Consolidated Financial Statements, the Company had an accumulated deficit as of December 31, 2022, as well as a net loss and negative cash flow from operating activities for the reporting period then ended. These factors raise substantial doubt about the Company's ability to continue as a going concern for at least one year from the issuance of these financial statements.

However, management believes that substantial doubt 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) continued sales growth from the Company's consolidated operations, (ii) latitude as to the timing and amount of certain operating expenses as well as capital expenditures, (iii) expense reduction plans that have already been put in place to improve the Company's results, (iv) the AFC-VRT credit facilities (refer to Note 10 for further discussion), as well as access to the U.S. public equity markets.

If the Company is unable to raise additional capital whenever necessary, it may be forced to decelerate or curtail its footprint build-out or other operational activities until such time as additional capital becomes available. Such limitation of the Company's activities would allow it to slow its rate of spending and extend its use of cash until additional capital is raised. However, management cannot provide any assurances that we will be successful in accomplishing any of our plans.

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

Asset forfeiture risk

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

Banking risk

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

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

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. As of December 31, 2022, the Company has total debt of $215,080, with $101,517 bearing fixed interest rates, and $113,564 bearing a variable interest rate. A hypothetical 200-basis point increase in interest rates would result in increased interest expense of $2,535 for the year ended December 31, 2023.

Capital risk management

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company’s capital management approach during the year ended December 31, 2022.

As reflected in the Consolidated Financial Statements, the Company had an accumulated deficit as of December 31, 2022, as well as a net loss and negative cash flow from operating activities for the reporting period then ended. These factors raise substantial doubt about the Company’s ability to continue as a going concern for at least one year from the issuance of these financial statements.

However, management believes that substantial doubt 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) continued sales growth from the Company’s consolidated operations, (ii) latitude as to the timing and amount of certain operating expenses as well as capital expenditures, (iii) expense reduction plans that have already been put in place to improve the Company’s results, (iv) the AFC-VRT credit facilities (refer to Note 10 for further discussion), as well as 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 we will be successful in accomplishing any of our plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur at any time within the next twelve months or thereafter which could increase our need to raise additional capital on an immediate basis.