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, 2022 (the "2022 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 and six month period ended June 30, 2023 and related notes appearing elsewhere in this Quarterly Report on Form 10-Q (this "Quarterly Report" or "Form 10-Q) and the 2022 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, statements regarding the proposed transactions with Canopy Growth Corporation ("Canopy Growth or "Canopy"), 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 US Federal Illegality of the Company's Business Activities
- the anticipated benefits of the Floating Share Arrangement with Canopy Growth;
- the likelihood of Canopy Growth completing the acquisition of the Fixed Shares and/or Floating Shares;
- risks related to the ability to finance Acreage's business and fund its obligations;
- other expectations and assumptions concerning the transactions contemplated between Canopy Growth and Acreage;
- in the event that the Floating Share Arrangement is completed, the likelihood of Canopy completing the Acquisition in accordance with the Existing Arrangement Agreement;
- the risk of a change of control of either Canopy or Canopy USA;
- the impact of material non-recurring expenses in connection with the Floating Share Arrangement on Acreage's future results of operations, cash flows and financial condition;
- the ability of Canopy, Canopy USA and Acreage to leverage each other's respective capabilities and resources;
- 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;
- 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;
- 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;

- the dual structure of the Fixed and Floating Shares
- 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 May 1, 2023, as filed with the Securities and Exchange Commission. Although Acreage has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Readers are cautioned that the foregoing list of factors is not exhaustive. Readers are further cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are placed will occur. Forward-looking statements contained in this Form 10-Q are expressly qualified by this cautionary statement. The forward-looking statements contained in this Form 10-Q represent the expectations of Acreage as of the date of this Form 10-Q and, accordingly, are subject to change after such date. However, Acreage expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities law.

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

- Overview—This section provides a general description of the Company's businesses, its strategic objectives, as well as developments that occurred during the three and six months ended June 30, 2023 and 2022 that the Company believes are important in understanding its results of operations and financial condition or to disclose known trends.

- Results of Operations—This section provides an analysis of the Company's results of operations for the three and six months ended June 30, 2023 and 2022. This analysis is presented on a consolidated basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

- Liquidity and Capital Resources—This section provides an analysis of the Company's cash flows for the three and six months ended June 30, 2023 and 2022, as well as a discussion on the Company's outstanding debt and commitments that existed as of June 30, 2023. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund the Company's future commitments and obligations, as well as a discussion of other financing arrangements.

Overview

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

As of June 30, 2023, 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 June 30, 2023, 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 have 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 in 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 arrangement agreement; and (ii) committing to exercise its Fixed Share option, all subject to required approvals and terms of the related agreements. Throughout 2023, the Company has taken all steps necessary to date to prepare for the eventual closing of these transactions, including holding a special meeting of shareholders to approve the Floating Share arrangement agreement.

<u>Highlights from the three and six months ended June 30, 2023</u>:

- The Company ended the quarter with a cash balance of $30,029, including $16,401 of cash and cash equivalents and $13,628 of restricted cash, respectively.
- The Company's total consolidated revenue declined 5% and 4% as compared with the three and six months ended June 30, 2022, respectively. After adjusting for acquisitions and divestitures, revenue for the three and six month periods ended June 30, 2023 declined by 4% and 2%, respectively. On a sequential basis, revenue increased by 4% for the three months ended June 30, 2023 as compared to the prior three month period ended March 31, 2023.
- Adjusted EBITDA for the three and six months ended June 30, 2023 was $6.8 million and $17.4 million, respectively, compared to adjusted EBITDA of $10.4 million and $19.0 million, respectively during the same period in 2022. This marks ten consecutive quarters of positive adjusted EBITDA. Refer to section "Non-GAAP Information" for a discussion of Adjusted EBITDA as a non-GAAP measure.

- On January 2, 2023, the Company acquired cultivation, processing and retail operations in Maine from a third party who provided cultivation, manufacturing, processing, distribution and handling, recordkeeping, compliance, and other services to the Company's operations in Maine.
- On January 10, 2023, the Company commenced adult-use operations in Connecticut, offering a range of products from our flagship brand The Botanist for adult-use sales in Montville.
- On January 31, 2023, the Company launched "Fast-Acting Gummies" or "TiME Gummies" under its flagship brand The Botanist in Illinois, Maine, Massachusetts, and Ohio.
- The Floating Share Arrangement was approved at a special meeting of the holders of Floating Shares held on March 15, 2023. Refer to Note 13 for further discussion.
- On April 11, 2023, the Company sold, for total proceeds of $12,113, the rights to receive certain Employee Retention Tax Credits ("ERTC") with an aggregate receivable value of $14,251.
- On April 28, 2023, the Company reached an agreement with the lenders of the Prime rate credit facilities due January 2026 that would allow it to draw a further $15,000 under its current Credit Agreement, but such funds would be maintained in a segregated account until dispersed and be restricted for use to only eligible capital expenditures. As part of this agreement, the Company has agreed to limit the total amounts outstanding under the Credit Agreement to $140,000.

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 the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Results of Operations

The following table presents selected financial data derived from the unaudited condensed consolidated financial statements of the Company for the three and six months ended June 30, 2023 and 2022. 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 June 30,		Better/(Worse) 2023 vs. 2022		Six Months Ended June 30,		Better/(Worse) 2023 vs. 2022	
	2023	2022	$	%	2023	2022	$	%
Revenues, net	$ 58,115	$ 61,351	$ (3,236)	(5)%	$ 114,078	$ 118,230	$ (4,152)	(4)%
Net operating income (loss)	(5,055)	3,310	(8,365)	n/m	(3,910)	588	(4,498)	n/m
Net loss attributable to Acreage	(16,156)	(9,929)	(6,227)	(63)	(30,746)	(22,623)	(8,123)	(36)
Basic and diluted loss per share attributable to Acreage	$ (0.14)	$ (0.09)	$ (0.05)	(56)%	$ (0.27)	$ (0.21)	$ (0.06)	(29)%

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 June 30,		Better/(Worse) 2023 vs. 2022		Six Months Ended June 30,		Better/(Worse) 2023 vs. 2022	
	2023	2022	$	%	2023	2022	$	%
Retail revenue, net	$44,913	$46,685	$ (1,772)	(4)%	$86,794	$88,112	$ (1,318)	(1)%
Wholesale revenue, net	13,202	14,360	(1,158)	(8)	27,200	29,532	(2,332)	(8)
Other revenue, net	—	306	(306)	n/m	84	586	(502)	(86)
Total revenues, net	$58,115	$61,351	$ (3,236)	(5)%	$114,078	$118,230	$ (4,152)	(4)%
Cost of goods sold, retail	(23,484)	(23,466)	(18)	—	(43,898)	(44,234)	336	1
Cost of goods sold, wholesale	(13,509)	(7,271)	(6,238)	(86)	(22,473)	(13,872)	(8,601)	(62)
Total cost of goods sold	$(36,993)	$(30,737)	$ (6,256)	(20)%	$(66,371)	$(58,106)	$ (8,265)	(14)%
Gross profit	$21,122	$30,614	$ (9,492)	(31)%	$47,707	$60,124	$ (12,417)	(21)%
Gross margin	36 %	50 %		(14)%	42 %	51 %		(9)%

n/m - Not Meaningful

Three months ended June 30, 2023 vs. 2022

Total revenues for the three months ended June 30, 2023 declined by $3,236, or 5%, compared to the three months ended June 30, 2022. The decline in total revenue was primarily due to a decrease of $873 related to the divestiture of the Company's operations in Oregon in 2022 and continued competitive pressure across most of the Company's markets and was somewhat offset by revenue growth in both New Jersey and Connecticut after commencement of adult use sales. Excluding divestitures, total revenue decreased by $2,363 or 4% for the three months ended June 30, 2023, as compared to 2022.

Retail revenue for the three months ended June 30, 2023 declined by $1,772, or 4%, compared to the three months ended June 30, 2022. Excluding the impact of the divestiture of the Company's operations in Oregon, retail revenue decreased by $899, or 2%, for the three months ended June 30, 2023 compared to 2022. This decline was primarily driven by price compression and was offset by the commencement of adult use sales in New Jersey in April 2022 and Connecticut in January 2023.

Wholesale revenue for the three months ended June 30, 2023 decreased by $1,158, or 8%, compared to the three months ended June 30, 2022. The decline in wholesale revenue was primarily due to price compression and decreased wholesale demand in select markets, particularly in those markets where integrated operators put a greater focus on the sales of their own internally produced products.

Retail cost of goods sold increased $18 for the three months ended June 30, 2023 compared to the three months ended June 30, 2022. This increase was driven by inflation-driven cost increases, which was offset by lower volumes and cost efficiencies.

Wholesale cost of goods sold increased $6,238, or 86%, for the three months ended June 30, 2023 compared to the three months ended June 30, 2022. The growth in wholesale cost of goods sold contrasted with an 8% decrease in wholesale revenue. Wholesale cost of goods sold increased due to $4,484 of non-cash inventory adjustments made in the three months ended June 30, 2023 as a result of excess inventory in select markets and reducing the carrying value of wholesale inventory to reflect the lower of cost and net realizable value. Excluding these non-cash inventory adjustments, wholesale costs of goods sold for the three months ended June 30, 2023 increased $1,754 or 24% compared to 2022. Inflation-driven cost increases were greater than the cost reductions associated with lower volumes.

Gross profit decreased $9,492, or 31%, for the three months ended June 30, 2023 to $21,122 from $30,614 in the three months ended June 30, 2022. Gross margin decreased from 50% of revenue for the three months ended June 30, 2022 to 36% of revenue in 2023, or 14%. Efficiencies gained from further economies of scale were unable to offset (i) overall selling price declines, (ii) cost increases due to inflation, (iii) volume declines relative to a portion of the expenditures that are fixed in nature and, (iv) the aforementioned wholesale non-cash inventory adjustments. Excluding these non-cash inventory adjustments, margin decreased to 44%.

Six months ended June 30, 2023 vs. 2022

Total revenues for the six months ended June 30, 2023 decreased by $4,152, or 4%, compared to the six months ended June 30, 2022. The decline in total revenue was, in part, due to a decrease of $2,111 related to the divestiture of the Company's operations in Oregon, offset by an increase of $485 due to the acquisitions of a Maine dispensary in 2022. Excluding these acquisitions and divestitures, total revenue decreased by $2,526, or 2% for the six months ended June 30, 2023, as compared to 2022. Continued competitive pressure across most of the Company's markets was somewhat offset by revenue growth in both New Jersey and Connecticut after the commencement of adult use sales.

Retail revenue for the six months ended June 30, 2023 decreased by $1,318, or 1%, compared to the six months ended June 30, 2022. Excluding the impact of acquisitions and divestitures, retail revenue increased by $309 for the six months ended June 30, 2023 compared to the six months ended June 30, 2022. Revenue growth due to the commencement of adult use sales in New Jersey in April 2022 and Connecticut in January 2023 was somewhat offset by price compression.

Wholesale revenue for the six months ended June 30, 2023 decreased by $2,332, or 8%, compared to the six months ended June 30, 2022. The decline in wholesale revenue was primarily due to price compression and decreased wholesale demand in select markets, particularly in those markets where integrated operators put a greater focus on the sales of their own internally produced products.

Retail cost of goods sold decreased $336, or 1%, for the six months ended June 30, 2023 compared to the six months ended 2022, which was generally consistent with the 1% decrease in retail revenue. Inflation-driven cost increases were generally offset by cost efficiencies.

Wholesale cost of goods sold increased $8,601, or 62%, for the six months ended June 30, 2023 compared to the six months ended 2022. The growth in wholesale cost of goods sold contrasted with an 8% decrease in wholesale revenue. Wholesale cost of goods sold increased due to $6,721 of non-cash inventory adjustments made during the six months ended June 30, 2023 as a result of excess inventory in select markets, reducing the carrying value of wholesale inventory to reflect the lower of cost and net realizable value. Excluding these non-cash inventory adjustments, wholesale costs of goods sold decreased $1,880 or 14%. Inflation driven cost increases and product mix shifts, which were greater than the cost reductions associated with lower volumes, drove the increase in wholesale cost of goods sold.

Gross profit decreased $12,417, or 21%, for the six months ended June 30, 2023 to $47,707 from $60,124 in the six months ended 2022, and Gross margin decreased from 51% of revenue for the six months ended June 30, 2022 to 42% of revenue in 2023, or 9%, due to the factors discussed above. Efficiencies gained from further economies of scale were unable to offset (i) overall selling price declines, (ii) cost increases due to inflation, (iii) volume declines relative to a portion of the expenditures that are fixed in nature, and (iv) the aforementioned wholesale non-cash inventory adjustments. Excluding the non-cash inventory adjustments, margin decreased slightly to 48%.

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 June 30,**		**2023 vs. 2022**		**Six Months Ended June 30,**		**2023 vs. 2022**	
	2023	2022	$	%	2023	2022	$	%
New England	$ 17,571	$ 16,386	1,185	7 %	32,659	$ 32,812	(153)	— %
Mid-Atlantic	21,099	19,535	1,564	8 %	41,375	34,890	6,485	19 %
Midwest	19,210	23,794	(4,584)	(19)%	39,527	46,963	(7,436)	(16)%
West	235	1,636	(1,401)	(86)%	517	3,565	(3,048)	(85)%
Total revenues, net	$ 58,115	$ 61,351	(3,236)	(5)%	114,078	$ 118,230	(4,152)	(4)%

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 June 30,		2023 vs. 2022		Six Months Ended June 30,		2023 vs. 2022	
	2023	2022	$	%	2023	2022	$	%
General and administrative	$ 7,073	$ 8,922	$ 1,849	21 %	$ 17,585	$ 17,309	$ (276)	(2)%
Compensation expense	13,203	12,579	(624)	(5)	25,406	26,774	1,368	5
Equity-based compensation expense	694	1,655	961	58	1,678	5,814	4,136	71
Marketing	656	964	308	32	1,400	1,661	261	16
Impairments, net	—	329	329	n/m	—	2,467	2,467	n/m
Write down (recovery) of assets held-for-sale	3,557	—	(3,557)	n/m	3,557	874	(2,683)	(307)
Legal settlements (recoveries)	—	(310)	(310)	n/m	—	(335)	(335)	n/m
Depreciation and amortization	994	3,165	2,171	69	1,991	4,972	2,981	60
Total operating expenses	$ 26,177	$ 27,304	$ 1,127	4 %	$ 51,617	$ 59,536	$ 7,919	13 %

n/m - Not Meaningful

Three months ended June 30, 2023 vs. 2022

Total operating expenses for the three months ended June 30, 2023 were $26,177, a decrease of $1,127, or 4%, compared to the three months ended 2022. The primary drivers of the decrease in operating expenses were as follows:

- General and administrative expenses decreased $1,849 during the three months ended June 30, 2023 compared to 2022, primarily due to (i) decreases in professional fees as the Company has become less reliant on consultants as the organization has matured and (ii) decreases in both office expenses and other expenses, which was driven by measures put in place by management to reduce costs.
- Compensation expense increased $624 during the three months ended June 30, 2023 as compared to 2022, primarily due to increased human capital costs and employee benefits.
- Equity-based compensation expense decreased $961, or 58%, during the three months ended June 30, 2023 as compared to 2022, primarily due to staffing reductions and changes made to the Company’s long-term incentive compensation plans.
- Write down (recovery) of assets held-for-sale of $3,557 during the three months ended June 30, 2023 related to the Company’s adult-use cannabis cultivation and processing operations in the state of California.
- Depreciation and amortization expenses decreased by $2,171 during the three months ended June 30, 2023 compared to 2022, primarily due to the impairment of certain intangible assets in 2022.

Six months ended June 30, 2023 vs. 2022

Total operating expenses for the six months ended June 30, 2023 were $51,617, a decrease of $7,919, or 13%, compared to the six months ended June 30, 2022. The primary drivers of the increase in operating expenses were as follows:

- Compensation expense decreased $1,368 during the six months ended June 30, 2023 as compared to 2022, primarily due to the reversal of bonus provisions related to the prior year.
- Equity-based compensation expense decreased $4,136, or 71%, during the six months ended June 30, 2023 as compared to 2022, primarily due to the fully vesting, prior to the three months ended March 31, 2023 of certain historic equity-based compensation grants and no annual grants have been issued to employees during 2023 under the Company’s normal long-term incentive plan.
- There were no impairments in the six months ended June 30, 2023. Impairments, net of $2,467 for the six months ended June 30, 2022 was primarily driven by an impairment of $1,907 related to certain Michigan locations during the six months ended June 30, 2022.
- Write down (recovery) of assets held-for-sale of $3,557 for the six months ended June 30, 2023 related to the Company’s adult-use cannabis cultivation and processing operations in the state of California. The write downs of assets held-for-sale in the comparative period of 2022 relate to the Company’s Oregon operations which were disposed of in the year ended December 31, 2022.
- Depreciation and amortization expenses decreased by $2,981 during the six months ended June 30, 2023 compared to 2022, 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 six months ended June 30, 2022 and due to the impairment of certain intangible assets in the year ended December 31, 2022.

Total other income (loss)

Other income (loss)			**Better/(Worse)**				**Better/(Worse)**	
in thousands	**Three Months Ended June 30,**		**2023 vs. 2022**		**Six Months Ended June 30,**		**2023 vs. 2022**	
	2023	2022	$	%	2023	2022	$	%
Income (loss) from investments, net	$ 322	$ (996)	$ 1,318	n/m	$ (20)	$ 137	$ (157)	n/m
Interest income (loss) from loans receivable	(6)	365	(371)	n/m	10	782	(772)	(99)%
Interest expense	(8,862)	(5,520)	(3,342)	(61)	(16,936)	(10,301)	(6,635)	(64)
Other income (loss), net	1,355	286	1,069	374	(198)	276	(474)	n/m
Total other loss	$ (7,191)	$ (5,865)	$ (1,326)	(23)%	$ (17,144)	$ (9,106)	$ (8,038)	(88)%
n/m - Not Meaningful								

Three months ended June 30, 2023 vs. 2022

Total other loss for the three months ended June 30, 2023 was $7,191, an increase of $1,326 compared to the three months ended June 30, 2022. The primary drivers of the increase in Total other income (loss) were as follows:

- Income from investments, net of $322 for the three months ended June 30, 2023 has increased $1,318 as compared to 2022 due to fair value adjustments to the investment in equity in other companies.
- Interest expense for the three months ended June 30, 2023 of $8,862, increased by $3,342 as a result of the Company having a larger debt balance as compared to 2022 and due to an increased interest rate on a substantial portion of the Company's debt.
- Other income (loss), net for the three months ended June 30, 2023 of $1,355, increased by $1,069 as compared to 2022, which was primarily due to income provided from Employee Retention Tax Credits.

Six months ended June 30, 2023 vs. 2022

Total other loss for the six months ended June 30, 2023 was $17,144, an increase of $8,038 compared to the six months ended June 30, 2022. The primary drivers of the increase in Total other loss were as follows:

- Interest income from loans receivable of $10 for the six months ended June 30, 2023 has decreased $772 as compared to 2022 due to a reduction in loans receivable outstanding during the comparative period.
- Interest expense for the six months ended June 30, 2023 of $16,936 increased by $6,635 as a result of the Company having a larger debt balance as compared to 2022 and due to an increased interest rate on a substantial portion of the Company's debt.

Net loss

Net loss			**Better/(Worse)**				**Better/(Worse)**	
in thousands	**Three Months Ended June 30,**		**2023 vs. 2022**		**Six Months Ended June 30,**		**2023 vs. 2022**	
	2023	2022	$	%	2023	2022	$	%
Net loss	$ (18,240)	$ (10,603)	$ (7,637)	(72)%	$ (34,397)	$ (24,514)	$ (9,883)	(40)%
Less: net loss attributable to non-controlling interests	(2,084)	(674)	(1,410)	(209)	(3,651)	(1,891)	(1,760)	(93)%
Net loss attributable to Acreage Holdings, Inc.	$ (16,156)	$ (9,929)	$ (6,227)	(63)%	$ (30,746)	$ (22,623)	$ (8,123)	(36)%

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 June 30,**		**2023 vs. 2022**		**Six Months Ended June 30,**		**2023 vs. 2022**	
	2023	2022	$	%	2023	2022	$	%
Net loss (U.S. GAAP)	**$ (18,240)**	**$ (10,603)**			**$ (34,397)**	**$ (24,514)**		
Income tax expense	5,994	8,048			13,343	15,996		
Interest expense, net	8,868	5,155			16,926	9,519		
Depreciation and amortization[1]	3,511	4,456			6,549	7,347		
EBITDA (non-GAAP)	**$ 133**	**$ 7,056**	**$ (6,923)**	**(98)%**	**$ 2,421**	**$ 8,348**	**$ (5,927)**	**(71)%**
Adjusting items:								
Loss (income) from investments, net	(322)	996			20	(137)		
Impairments, net	—	134			—	2,090		
Non-cash inventory adjustments	4,484	—			6,721	—		
Loss on extraordinary events[2]	200	194			1,692	376		
Write down (recovery) of assets held-for-sale	3,557	—			3,557	874		
Legal settlements, net	—	(310)			—	(335)		
Gain on business divestiture	—	(292)			—	(296)		
Equity-based compensation expense	694	1,655			1,678	5,814		
Other non-recurring expenses[3]	(1,910)	952			1,339	2,278		
Adjusted EBITDA (non-GAAP)	**$ 6,836**	**$ 10,385**	**$ (3,549)**	**(34)%**	**$ 17,428**	**$ 19,012**	**$ (1,584)**	**(8)%**

(1) Depreciation and amortization for the three and six months ended June 30, 2023 and 2022 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 June 30, 2023, the Company had primarily used private financing as a source of liquidity for short-term working capital needs and general corporate purposes.

As of June 30, 2023, the Company had cash of $30,029, including $16,401 of cash and cash equivalents and $13,628 of restricted cash, respectively, on the Unaudited Condensed Consolidated Statements of Financial Position. The Company's ability to fund its operations, capital expenditures, acquisitions, and other obligations depends on its future operating performance and ability to obtain financing, which are subject to prevailing economic conditions, as well as financial, business and other factors, some of which are beyond the Company's control.

The Company's future contractual obligations include the following:

Leases

As of June 30, 2023, the Company had future operating lease obligations and future finance lease obligations of $31,745 and $15,988, respectively, with $2,030 and $453 payable within the next six months, respectively. The Company leases land, buildings, equipment and other capital assets which it plans to use for corporate purposes in addition to the production and sale of cannabis products. Leases with an initial term of 12 months or less are not recorded on the Unaudited Condensed Consolidated Statements of Financial Position and are expensed in the Unaudited Condensed Consolidated Statements of Operations on the straight-line basis over the lease term. The Company does not have any material variable lease payments, and accounts for non-lease components separately from leases. Refer to Note 8 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

Debt

As of June 30, 2023, the Company had outstanding debt with varying maturities for an aggregate principal amount of $243,968 (net of $14,741 of unamortized discounts and debt issuance costs), with $12,904 payable within the remaining six months. The Company has related future interest payments of $73,514, with $16,279 payable within the remaining six months. In April 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 agreed to not draw additional funds under the Credit Agreement. Refer to Notes 10 and 17 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

The Company expects that its Cash and cash equivalents of $16,401 as of June 30, 2023, 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.

Going Concern

As reflected in the unaudited condensed consolidated financial statements, the Company had an accumulated deficit as of June 30, 2023, as well as a net loss and negative cash flow from operating activities for the six months ended June 30, 2023. 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 are issued, can be mitigated by, but not limited to, (i) expected long-term 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) access to the U.S. and Canadian public equity markets.

Cash flows

Cash and cash equivalents and restricted cash were $30,029 as of June 30, 2023, which represents a net increase of $5,962 for the six months ended June 30, 2023. The following table details the change in cash, cash equivalents, restricted cash and cash related to assets held for sale for the six months ended June 30, 2023 and 2022.

Cash flows			**Better/(Worse)**	
in thousands	**Six Months Ended June 30,**		**2023 vs. 2022**	
	2023	2022	$	%
Net cash used in operating activities	$ (15,107)	$ (23,466)	$ 8,359	36 %
Net cash used in investing activities	(716)	(9,488)	8,772	92
Net cash provided by financing activities	21,785	18,017	3,768	21
Net increase (decrease) in cash, cash equivalents, restricted cash, and cash held for sale	$ 5,962	$ (14,937)	$ 20,899	n/m

n/m - Not Meaningful

Net cash used in operating activities

During the six months ended June 30, 2023, the Company used $15,107 of net cash in operating activities compared to $23,466 of net cash provided through operating activities in the same period for 2022, which represented a decrease of $8,359, or 36%, when compared with 2022. Although the reported net loss increased by $9,883 during the six months ended June 30, 2023 when compared to the same period of 2022, 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 $8,788 when compared to the same period of 2022.

Net cash used in investing activities

During the six months ended June 30, 2023, the Company used $716 of net cash through investing activities compared to $9,488 of net cash used in investing activities in the same period for 2022, which represented an improvement of $8,772. Net cash used in investing activities for the six months ended June 30, 2023 included $3,232 on the purchase of capital assets and intangibles which was partially offset by collection of notes receivable of $2,000.

Net cash provided by financing activities

During the six months ended June 30, 2023, the Company had $21,785 of net cash provided through financing activities compared to $18,017 of net cash provided through financing activities in the same period for 2022, which represented an improvement of $3,768. Net cash used in financing activities for the six months ended June 30, 2023 included $868 of debt repayments.

Capital Resources

Capital structure and debt

Our debt outstanding as of June 30, 2023 and December 31, 2022 is as follows:

Debt balances	**June 30, 2023**	**December 31, 2022**
Financing liability (failed sale-leaseback)	$ 15,253	$ 15,253
Finance lease liabilities	5,969	5,306
7.50% Loan due April 2026	31,549	31,288
6.10% Secured debenture due September 2030	46,727	46,502
Note due December 2024	2,375	3,167
Prime rate credit facilities due January 2026, as amended	129,982	113,564
Note backed by ERTC	12,113	—
Total debt	**$ 243,968**	**$ 215,080**
Less: current portion of debt	13,805	1,584
Total long-term debt	**$ 230,163**	**$ 213,496**

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.

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 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. 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 June 30, 2023, for which no liabilities are recorded on the Unaudited Condensed Consolidated Statements of Financial Position.

The Company is subject to other capital commitments and similar obligations. As of June 30, 2023, such amounts were not material.

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company's applicable subsidiaries ceasing operations. While management of the Company believes that the Company's subsidiaries are in compliance with applicable local and state regulations as of June 30, 2023, 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 2022 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements.

As of June 30, 2023 there have been no material changes to our critical accounting policies and estimates from those previously disclosed in our 2022 Annual Report on Form 10-K for the year ended December 31, 2022.

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

The Company has exposure to certain risks, including market, credit, liquidity, asset forfeiture, banking and interest rate risk, and assesses the impact and likelihood of those risks. However, there have been no material changes in our market risk during the three and six months ended June 30, 2023. For additional information, refer to our 2022 Annual Report on Form 10-K for the year ended December 31, 2022.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company's management, and due to the material weakness in internal controls over financial reporting described below, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were not effective for the period ending June 30, 2023 to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Inherent Limitations Over Internal Controls

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