MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2017 AND THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

*This management discussion and analysis ("**MD&A**") of the financial condition and results of operations of Cresco Labs, LLC (the "**Company**" or "**Cresco**") is for the year ended December 31, 2017, and for the three and nine months ended September 30, 2018. It is supplemental to, and should be read in conjunction with, the Company's audited combined financial statements and the accompanying notes for the year ended December 31, 2017 and the Company's unaudited interim combined financial statements and the accompanying notes for the three and nine months ended September 30, 2018. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). Financial information presented in this MD&A is presented in United States dollars ("**$**" or "**US$**"), unless otherwise indicated.*

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102–Continuous Disclosure Obligations of the Canadian Securities Administrators.

This MD&A contains certain "forward-looking statements" and certain "forward-looking information" as defined under applicable United States securities laws and Canadian securities laws. Please refer to the discussion of forward-looking statements and information set out under the heading "Cautionary Note Regarding Forward Looking Information", located at the beginning of this Listing Statement. As a result of many factors, the Company's actual results may differ materially from those anticipated in these forward-looking statements and information.

OVERVIEW OF THE COMPANY

Cresco is an Illinois limited liability company which is licensed to cultivate, manufacture and sell medical cannabis and medical cannabis products. The Company operates in Illinois, Pennsylvania, Ohio, California, Nevada and Arizona.

Cresco is comprised of the following companies:

- Cresco Labs PA, LLC (“Cresco PA”), wholly-owned, which holds a 100% interest in an operating company, Cresco Yeltrah, LLC (“Yeltrah”).
- JDRCB Ohio, LLC (“JDRCBO”), wholly-owned, which holds a 99% interest in an operating company, Cresco Labs, OH, LLC (“Cresco Ohio”).
- JDRC Managed Services, LLC (“JDRC”), wholly-owned.
- Cresco Edibles, wholly-owned, which holds a 75% interest in an operating company, TSC Cresco, LLC (“TSC”).
- Cresco Labs, LLC (“Cresco IL”), of which the Company owns 100%.
- Cresco Labs California, LLC (“California”), wholly-owned, which holds an 80% interest in an operating company, SLO Cultivation, Inc (“SLO”)
- Cresco Labs TINAD, LLC, wholly-owned, which holds a 98% interest in an operating entity, TINAD, LLC (“TINAD”)
- Cresco Labs Phoenix, LLC, wholly-owned, which holds an 89% interest in an operating company, Phoenix Farms, LLC (“Phoenix”).

- Cresco Labs Nevada, LLC, wholly-owned, which holds a 25% interest in an operating company, Lighthouse Strategies, LLC (“Lighthouse”).

- Cresco Labs Arizona, LLC, wholly-owned, which holds a 100% interest in an operating company, Arizona Facilities Supply, LLC and which holds a 100% interest in an operating company, Encanto Green Cross Dispensary, LLC, (collectively, “Arizona”).

Cresco is primarily engaged in the business of cultivating medical grade cannabis, manufacturing medical products derived from cannabis cultivation, distributing such products to medical or adult use consumers in legalized cannabis markets. Cresco exists to provide high-quality and consistent cannabis-based products to consumers. Cresco's business focuses on regulatory compliance while working to develop condition-specific strains of cannabis and non-invasive delivery methods (alternatives to smoke inhalation) to provide controlled-dosage medicinal cannabis relief to qualified patients and consumers in legalized cannabis markets. It currently operates three medical cannabis cultivation and manufacturing centers in Illinois, five dispensary locations in Illinois, one medical cannabis cultivation and manufacturing center in Pennsylvania, three dispensary locations in Pennsylvania, and one medical cannabis cultivation center and dispensary license in Ohio. In Illinois, Cresco's three applications received the highest, second highest and third highest scores, respectively of all applications reviewed by the State of Illinois. In Pennsylvania, Cresco was awarded the highest score during the application process and had the second highest overall score, making it one of only five cultivators that was also awarded a dispensary license which allows for up to three dispensaries. In Ohio, Cresco received the seventh highest overall score.

The States We Operate In, Their Legal Framework and How It Affects Our Business

Illinois Operations

The Compassionate Use of Medical Cannabis Pilot Program Act, which allows individuals diagnosed with a debilitating medical condition access to medical marijuana, became effective January 1, 2014 and is extended through July 1, 2020. There are over 41 qualifying conditions as part of the medical program, including epilepsy, traumatic brain injury, and post-traumatic stress disorder ("PTSD").

Illinois' retail market size for 2017 was over $85 million, representing an over 140% year-over- year increase. In the first nine calendar months of 2018, recorded state-wide sales had already exceeded that of the total market size for all of 2017.

In March 2018, Cook County voters (which is by far and large the most populous county in the state, encompassing all of Chicagoland metro area) responded positively for state-wide recreational legalization with a 63% majority. Although the vote was non-binding, the voting leverage of Cook County, which encompasses more than 130 municipalities, may have played a role in the November 2018 gubernatorial elections during which numerous candidates have outwardly pledged their support for cannabis legislation, including Governor-elect JB Pritzker.

In January 2019, JB Pritzker was sworn into office as Governor of Illinois. Cresco’s CEO and co-founder, Charles Bachtell, has been appointed to the Cannabis Legalization Subcommittee of the governor’s transition team. Cannabis Legalization is one of four subcommittees under the Governor’s Restorative Justice and Safe Communities Transition Committee. The primary goals of the Cannabis Legalization Subcommittee are to evaluate and develop implementation recommendations for the Governor-elect’s platform on legalizing cannabis. The Opioid Alternative Pilot Program launched on January 31, 2019 and allows patients that receive or are qualified to receive opioid prescriptions access to medical marijuana as an alternative in situations where an opioid could generally be prescribed. Under this new program, patients with doctor approval can receive near-immediate access to cannabis products from an Illinois licensed dispensary. The Opioid Alternative Pilot Program eliminates the previously required fingerprinting and background checks that often delay patients’ access to medical cannabis by up to three months.

Cresco currently operates three (3) medical cannabis cultivation and manufacturing centers in Illinois and an ownership interest in five (5) dispensary locations in Illinois. Licenses were awarded based on merit in a highly competitive application process to applicants who demonstrated strong operational expertise and financial backing. To date, Cresco has established a 25%+ wholesale market share in Illinois.

Cresco is also spearheading clinical trials in collaboration with the Northwestern University Feinberg School of Medicine, the University of Illinois College of Pharmacy and the UIC/NIH Center for Botanical Dietary Supplements Research to formulate a Phase 1 trial related to the bioavailability of topical cannabinoid applications and the efficacy of such application for diabetic neuropathic pain.

Cresco is collaborating with biopharmaceutical scientists and the University of Illinois at Chicago College of Pharmacy to develop standards and methods for the accurate testing of cannabinoids and other molecular attendants contained in raw cannabis and cannabis derivative products. Such efforts will result in the most developed, thorough and accurate analytical methodologies developed related to cannabis to date.

Cresco is completing experimental trials with senior faculty at the University of Illinois School of Agriculture using two naturally occurring compounds, applied to the root zone of cannabis plants with the goal of increasing potency and disease resistance. Data from the experiments will be statistically analyzed to determine any significant effect resulting from the compound addition with the intent of publication.

Cresco is licensed to operate in the state of Illinois as a medical cultivator, and medical product manufacturer. Phoenix Farms, LLC, a subsidiary of Cresco ("**Phoenix Farms**"), is licensed to operate a retail dispensary in the state of Illinois. Under applicable laws, the licenses permit Cresco and Phoenix Farms to collectively, cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses, which are issued by the Department of Agriculture and the Department of Financial and Professional Regulation under the provisions of the Illinois Revised Statutes 410 ILCS 130. All licenses are, as of the date hereof, active with the State of Illinois. There are two categories of licenses in Illinois: (i) cultivation/processing; and (ii) dispensary. The licenses are independently issued for each approved activity.

All cultivation/processing establishments must register with Illinois Department of Agriculture. All dispensaries must register with the Illinois Department of Financial and Professional Regulation. If applications contain all required information and after vetting by officers, establishments are issued a medical marijuana establishment registration certificate. Registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. Renewal requests are typically communicated through email from the Department of Agriculture or Illinois Department of Financial and Professional Regulation and include a renewal form.

The retail dispensary license held by Phoenix Farms permits it to purchase marijuana and marijuana products from cultivation/processing facilities, and allows the sale of marijuana and marijuana products to registered patients.

The three medical cultivation licenses held by Cresco permit it to acquire, possess, cultivate, manufacture/process into edible medical marijuana products and/or medical marijuana-infused products, deliver, transfer, have tested, transport, supply or sell marijuana and related supplies to medical marijuana dispensaries.

Pennsylvania Operations

The Pennsylvania medical marijuana program was signed into law on April 17, 2016 under Act 16 and provided access to state residents with one of 21 qualifying conditions, including epilepsy, cancer, chronic pain, and PTSD. The state, which consists of over 12 million U.S. citizens and qualifies as the fifth largest population in the US, operates as a high-barrier market with very limited market participation. The state originally awarded only 12 licenses to cultivate/process and 27 licenses to operate retail dispensaries (which entitled holders to up to three medical dispensary locations). Out of the hundreds of applicants in each license category, Cresco Yeltrah, LLC ("**Yeltrah**"), a subsidiary of Cresco, was awarded one (1) medical cannabis cultivation and manufacturing center in Pennsylvania, three (3) dispensary locations in Pennsylvania. Cresco Yeltrah has established a 25%+ market share in Pennsylvania.

Retail sales opened in February 2018 to a limited number of retail locations across the state. Cresco Yeltrah, on February 15, was the first cultivator/processor to release product into Pennsylvania market (approximately 6 weeks ahead of any other producer) and its dispensary was the first to sell product to patients in the state.

On March 22, 2018, it was announced that the final phase of the Pennsylvania medical marijuana program would initiate its rollout, which will include 13 additional cultivation/processing licenses and 23 additional dispensary licenses. The application period ran from April 2018 through May 17, 2018. Cresco Yeltrah was awarded an additional dispensary license by the Pennsylvania Department of Health which allows the company to open three additional dispensary locations.

In the introductory months of the program, Pennsylvania's medical marijuana dispensaries experienced supply shortages and were unable to keep up with statewide demand. It was announced on April 17, 2018 that dry flower would be included in the regulations as an approved product form for sale and consumption (in addition to the already approved forms of concentrates, pills, and tinctures).

Cresco Yeltrah is licensed to operate in the Commonwealth of Pennsylvania as a medical cannabis cultivator/processor and to operate six (6) medical cannabis dispensaries. Under applicable laws, the licenses permit Cresco Yeltrah to cultivate, manufacture, process, package, sell, and purchase medical marijuana pursuant to the terms of the licenses, which are issued by the Pennsylvania Department of Health under the provisions of *Medical Marijuana Act* (35 P.S. § § 10231.101— 10231.2110) and Chapters 1141, 1151 and 1161 of the Pennsylvania regulations. All licenses are, as of the date hereof, active with the Commonwealth of Pennsylvania. There are two categories of licenses in Pennsylvania: (i) cultivation/processing; and (ii) dispensary. The licenses are independently issued for each approved activity for use at Cresco Yeltrah facilities in Pennsylvania.

All cultivation/processing establishments must register with Pennsylvania Department of Health. All dispensaries must register with the Pennsylvania Department of Health. Registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. Specifically, for licenses that Cresco Yeltrah currently holds have each undergone one renewal.

The retail dispensary licenses permit Cresco Yeltrah to purchase marijuana and marijuana products from cultivation/processing facilities, and allows the sale of marijuana and marijuana products to registered patients.

The medical cultivation licenses permit Cresco Yeltrah to acquire, possess, cultivate, manufacture/process into edible medical marijuana products and/or medical marijuana-infused products, deliver, transfer, have tested, transport, supply or sell marijuana and related supplies to medical marijuana dispensaries.

Ohio Operations

House Bill 523, effective on September 8, 2016, legalized medical marijuana in Ohio. The Ohio Medical Marijuana Control Program ("**MMCP**") allows people with certain medical conditions, upon the recommendation of an Ohio-licensed physician certified by the State Medical Board, to purchase and use medical marijuana. House Bill 523 required and the framework for the MMCP became effective as of September 2018. This timeframe allowed for a deliberate process to ensure the safety of the public and to promote access to a safe product.

The three following state government agencies are responsible for the operation of Ohio's Medical Marijuana Control Program: (1) the Ohio Department of Commerce is responsible for overseeing medical marijuana cultivators, processors and testing laboratories; (2) the State of Ohio Board of Pharmacy is responsible for overseeing medical marijuana retail dispensaries, the registration of medical marijuana patients and caregivers, the approval of new forms of medical marijuana and coordinating the Medical Marijuana Advisory Committee; and (3) the State Medical Board of Ohio is responsible for certifying physicians to recommend medical marijuana and may add to the list of qualifying conditions for which medical marijuana can be recommended. Qualifying medical conditions for medical marijuana include: HIV/AIDS, Lou Gehrig's disease, Alzheimer's disease, Cancer, Chronic traumatic encephalopathy, Crohn's disease, epilepsy or other seizure disorder, fibromyalgia, glaucoma, hepatitis C, inflammatory bowel disease, multiple sclerosis (MS), pain (either chronic, severe, or intractable), Parkinson's disease, post-traumatic stress disorder (PTSD), sickle cell anemia, spinal cord disease or injury, Tourette's syndrome, traumatic brain injury, ulcerative colitis. In order for a patient to be eligible to obtain medical marijuana, a physician must make the diagnosis of one of these conditions.

Several forms of medical marijuana are legal in Ohio, these include: inhalation of marijuana through a vaporizer (not direct smoking), oils, Tinctures, plant material, edibles, patches and any other forms approved by the State Board of Pharmacy.

On June 4, 2018, the State of Ohio Board of Pharmacy awarded 56 medical marijuana provisional dispensary licenses. The licenses were awarded after an extensive review of 376 submitted dispensary applications.

Provisional licensees are authorized to begin the process of establishing a dispensary in accordance with the representations in their applications and the rules adopted by the State of Ohio Board of Pharmacy. Per rule, all provisional license holders have a maximum of six months to demonstrate compliance with the dispensary operational requirements to obtain a certificate of operation. Compliance will be determined through an inspection by a Board of Medical Marijuana Compliance Agent. Once a dispensary is awarded a certificate of operation, it can begin selling medical marijuana to Ohio patients and caregivers in accordance with Ohio laws and rules.

By rule, the State of Ohio Board of Pharmacy is limited to issuing up to 60 dispensary licenses across the state but will have the authority to increase the number of licenses. To date, no announcement has been made if the number of licenses will be increased. Per the program rules, the Board will consider, on at least a biennial basis, whether enough medical marijuana dispensaries exist, considering the state population, the number of patients seeking to use medical marijuana, and the geographic distribution of dispensary sites.

Cresco Labs Ohio, LLC ("**Cresco Ohio**"), a subsidiary of Cresco, was awarded one provisional dispensary license which is located in Wintersville, Ohio.

Cresco Ohio applied for and on November 30, 2017 received one provisional cultivation license. Cresco Ohio's cultivation facility is a hybrid greenhouse structure located in Yellow Springs, Ohio.

A holder of a provisional cultivation license is prohibited from operating as a licensed cultivator and performing any cultivation or production activities, including the procurement of seeds, seedlings, or other starting plant material until a Certificate of Operation is issued by the Ohio Department of Commerce. This provisional license serves as authorization from the Ohio Department of Commerce for Cresco Ohio to begin the construction or modification of the facility and to secure any other applicable permits needed from local jurisdictions in order to receive a Certificate of Operation. Pursuant to Ohio Administrative Code s. 3796:2-1-06(B), a provisional license holder has nine (9) months to obtain a Certificate of Operation. On September 14, 2018, Cresco Ohio received its certificate of operation.

The dispensary license permits Cresco Ohio to purchase marijuana and marijuana products from cultivation/processing facilities and allows the sale of marijuana and marijuana products to registered patients.

The medical cultivation licenses permit will permit Cresco Ohio to acquire, possess, cultivate, manufacture/process into medical marijuana products, deliver, transfer, have tested, transport, supply or sell marijuana and related supplies to medical marijuana dispensaries.

California Operations

In 1996, California was the first state to legalize medical marijuana through Proposition 215, the Compassionate Use Act of 1996 ("**CUA**"). This legalized the use, possession and cultivation of medical marijuana by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which marijuana provides relief.

In 2003, Senate Bill 420 was signed into law establishing an optional identification card system for medical marijuana patients.

In September 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("**MCRSA**"). The MCRSA established a licensing and regulatory framework for medical marijuana businesses in California. The system created multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers would require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies would oversee different aspects of the program and businesses would require a state license and local approval to operate. However, in November 2016, voters in California overwhelmingly passed Proposition 64, the "Adult Use of Marijuana Act" ("**AUMA**") creating an adult-use marijuana program for adult-use 21 years of age or older. AUMA had some conflicting provisions with MCRSA, so in June 2017, the California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Cannabis Regulation and Safety Act ("**MAUCRSA**"), which amalgamates MCRSA and AUMA to provide a set of regulations to govern medical and adult-use licensing regime for cannabis businesses in the State of California. The four agencies that regulate marijuana at the state level are BCC, California Department of Food and Agriculture, California Department of Public Health, and California Department of Tax and Fee Administration.

In order to legally operate a medical or adult-use cannabis business in California, the operator must have both a local and state license. This requires license holders to operate in cities with marijuana licensing programs. Therefore, cities in California are allowed to determine the number of licenses they will issue to marijuana operators or can choose to outright ban marijuana.

MAUCRSA went into effect on January 1, 2018.

On June 7, 2018 Cresco acquired a 60% ownership interest in SLO Cultivation Inc. ("**SLO**") a marijuana cultivation operation in operation in the cities of Carpinteria (Santa Barbara County) and San Luis Obispo (San Luis Obispo County) California. On September 27, 2018, Cresco acquired a further 20% ownership interest to bring the total ownership to 80%. The cultivation facility has a capacity of up to 600,000 square feet of greenhouse production space.

SLO through its wholly-owned subsidiaries (the "**Cal Subsidiaries**") are licensed to operate as medical and adult-use cultivator and processor under applicable California and local jurisdictional law (the "**California License**"). The California License permits the Cal Subsidiaries to cultivate and process medical and adult-use cannabis in the State of California pursuant to the terms of the California License issued by the BCC under the provision of the MAUCRSA and California Assembly Bill No. 133. In California, licenses are independently issued for each approved activity for use.

California state and local licenses are renewed annually. Each year, licensees are required to submit a renewal application per guidelines published by BCC. While renewals are annual, there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and there are no material violations noted against the applicable license, SLO would expect to receive the applicable renewed license in the ordinary course of business. While SLO's compliance controls have been developed to mitigate the risk of any material violations of a license arising, there is no assurance that the licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned operations of the Resulting Issuer and have a material adverse effect on its business, financial condition, results of operations or prospects.

SLO will be applying for and has been granted temporary licenses permitting it to cultivate, manufacture, distribute and retail medical (and in some instances, adult use) cannabis and cannabis-related products:

Mendota (Fresno County)

- SLO has been issued a temporary license for Type 7 (Manufacturing 2 – Volatile), Adult Use & Medical ("**A&M**").
- SLO has submitted an application for a temporary Type 11 (Distribution), A&M.

Willow Road (SLO County)

- SLO maintains good standing on this property and can pursue medical cannabis licenses; however, for strategic purposes SLO will not be submitting applications at this time.

Carpinteria (SB County)

- SLO has been issued temporary licenses for Cultivation: Small Mixed-Light Tier 1 and Specialty Mixed-Light Tier 1. Additionally, SLO has been issued temporary licenses in:
    - Nursery, allowing for the planting and cultivation of medical cannabis from seeds, clones, and immature plants.
    - Processor Type, allowing for the harvesting, drying, curing, grading or tanning of cannabis as well as the packaging and labelling of certain non-manufactured cannabis.
- SLO submitted annual applications for the four listed license types to the state regulator awaiting approval.

The City of Chula Vista

- SLO submitted two applications during the application Initial Application Period, both awaiting approval:
    - City of Chula Vista Restricted Cannabis License Application – Storefront Retail
    - City of Chula Vista Non-Restricted Cannabis License Application – Distribution

Nevada Operations

Medical marijuana use was legalized in Nevada by a ballot initiative in 2000. In November 2016, voters in Nevada passed an adult use marijuana measure to allow for the sale of recreational marijuana in the state. The first dispensaries to sell adult use marijuana began sales in July 2017. The Nevada Department of Taxation ("DOT") is the regulatory agency overseeing the medical and adult use cannabis programs. Similar to California, cities and counties in Nevada are allowed to determine the number of local marijuana licenses they will issue.

Cresco, via a Unit Purchase and Sales Agreement with Lighthouse Strategies Inc. ("**Lighthouse**") and Cresco Labs Nevada, LLC, acquired a 25% ownership interest in Paradise Wellness Center, LLC ("**Paradise Wellness**") d/b/a Las Vegas Releaf and Silver State Wellness, LLC ("**Silver State**"), entities licensed to operate in the state of Nevada.

Lighthouse is licensed to operate in the state of Nevada as a cultivator, product manufacturer and a retail dispensary. Under applicable laws, the licenses permit Lighthouse to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses, which are issued by the DOT under the provisions of Nevada Revised Statutes section 453A. All Nevada licenses are, as of the date hereof, active with the State of Nevada. All licenses are independently issued for each approved activity for use at the Lighthouse facilities and retail locations in Nevada.

In the state of Nevada, only cannabis that is grown/produced in the state by a licensed establishment may be sold in the state. Lighthouse is vertically integrated and has the capabilities to cultivate, harvest, process and sell/dispense/deliver cannabis and cannabis products. The state also allows Lighthouse to make wholesale purchase of cannabis from another licensed entity within the state.

The retail dispensary licenses and registration certificate permit Lighthouse to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities and marijuana from other retail stores, and allows the sale of marijuana and marijuana products to consumers.

The medical cultivation licenses permit Lighthouse to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell marijuana and related supplies to medical marijuana dispensaries, facilities for the production of edible medical marijuana products and/or medical marijuana-infused products, or other medical marijuana cultivation facilities.

The medical product-manufacturing license permits Lighthouse to acquire, possess, manufacture, deliver, transfer, transport, supply, or sell edible marijuana products or marijuana infused products to other medical marijuana production facilities or medical marijuana dispensaries. Lighthouse intends to apply for additional dispensary licenses as they become available.

All marijuana establishments must register with DOT. If applications contain all required information and after vetting by officers, establishments are issued a medical marijuana establishment registration certificate. In a local governmental jurisdiction that issues business licenses, the issuance by DOT of a medical marijuana establishment registration certificate is considered provisional until the local government has issued a business license for operation and the establishment is in compliance with all applicable local governmental ordinances. Final registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. Renewal requests are typically communicated through email from DOT and include a renewal form. The renewal periods serve as an update for DOT on the licensee's status toward active licensure. It is important to note provisional licenses do not permit the operation of any commercial or medical cannabis activity. Only after a provisional licensee has gone through necessary state and local inspections, if applicable, and has received a final registration certificate from DOT may an entity engage in cannabis business operation.

Arizona Operations

In 2010, Arizona passed Ballot Proposition 203, which amended Title 36 to the Arizona Revised Statutes. This amendment added Chapter 28.1, titled the *Arizona Medical Marijuana Act.* (the "**AMMA**"). The AMMA is codified in Arizona Revised Statutes (''**ARS''**) § 36-2801 et. seq. The AMMA also appointed the Arizona Department of Health Services (the "**ADHS**") as the regulator for the program and authorized ADHS to promulgate, adopt and enforce regulations for the AMMA. These ADHS Regulations are embodied in the Arizona Administrative Code (''**AAC''**) Title 9 Chapter 17 (the ''**Rules''**). ARS § 36-2801(11) defines a ''nonprofit medical cannabis dispensary'' as a not-for-profit entity that acquires, possesses, cultivates, manufactures, delivers, transfers, transports, supplies, sells or dispenses cannabis or related supplies and educational materials to cardholders (a ''**Dispensary''**).

The ADHS has established the Arizona Department of Health Services Medical Marijuana Program (''**MMJ Program''**), which includes a vertically integrated license, meaning if allocated a Medical Marijuana Dispensary Registration Certificate (''**Dispensary License''**), entities are authorized to dispense and cultivate medical cannabis. Each Dispensary License allows the holding entity to operate one on-site cultivation facility, and one off-site cultivation facility which can be located anywhere within the State of Arizona. An entity holding a Dispensary License is required to file an application to renew with the ADHS on an annual basis, which must also include audited annual financial statements. While a Dispensary License may not be sold, transferred or otherwise conveyed, Dispensary License holders typically contract with third parties to provide various services related to the ongoing operation, maintenance and governance of its dispensary and/or cultivation facility so long as such contracts do not violate the requirements of the AMMA or the MMJ Program.

The ADHS had until April 2012 to establish a registration application system for patients and nonprofit marijuana dispensaries, as well as a web-based verification platform for use by law officials and dispensaries to verify a patient's status as such. It also specified patients' rights, qualifying medical conditions, and allowed out-of-state medical marijuana patients to maintain their patient status (though not to purchase cannabis).

On December 6, 2012, Arizona's first licensed medical marijuana dispensary opened in Glendale.

In order to qualify to use medical marijuana under the AMMA, a patient is required to have a "debilitating medical condition. Valid medical conditions include: HIV, cancer, glaucoma, immune deficiency syndrome, hepatitis C, chron's disease, agitation of Alzheimer's disease, ALS, cachexia/wasting syndrome, muscle spasms, nausea, seizures, severe and chronic pain or another chronic or debilitating condition.

In order for an applicant to receive a Dispensary Registration Certificate (a ''**Certificate''**) they must: (i) fill out an application on the form proscribed by ADHS, (ii) submit the applying entity's articles of incorporation and by-laws, (iii) submit fingerprints for each principal officer or board member of the applicant for a background check to exclude felonies, (iv) submit a business plan and policies and procedures for inventory control, security, patient education, and patient recordkeeping that are consistent with the AMMA and the Rules to ensure that the Dispensary will operate in compliance and (v) designate an Arizona licensed physician as the Medical Director for the Dispensary. Certificates are renewed annually so long as the Dispensary is in good standing with ADHS and pays the renewal fee and submits an independent third-party financial audit.

Once an applicant has been issued a Certificate, they are allowed to establish one physical retail dispensary location, one cultivation location which is co-located at the dispensary's retail site (if allowed by local zoning) and one additional off-site cultivation location. None of these sites can be operational, however, until the Dispensary receives an approval to operate from ADHS for the applicable site. This approval to operate requires: (i) an application on the ADHS form, (ii) demonstration of compliance with local zoning regulations, (iii) a site plan and floor plan for the applicable property, and (iv) an in-person inspection by ADHS of the applicable location to ensure compliance with the Rules and consistency with the Dispensary's applicable policies and procedures.

Cresco has obtained a 100% ownership interest in Arizona Facilities Supply, LLC and Encanto Green Cross Dispensary, LLC, collectively, a vertically integrated cultivation, processing, and dispensary operation in Arizona.

The licenses in Arizona are renewed annually. Before expiry, licensees are required to submit a renewal application. While renewals are granted annually, there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and there are no material violations noted against the applicable license, Cresco would expect to receive the applicable renewed license in the ordinary course of business. While Cresco's compliance controls have been developed to mitigate the risk of any material violations of a license arising, there is no assurance that Arizona Cannabis' licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned operations of Arizona Cannabis have a material adverse effect on the Resulting Issuer's business, financial condition, results of operations or prospects.

Any Dispensary facility (both retail and cultivation) must abide by the following security requirements: (i) ensure that access to the facilities is limited to authorized agents of the Dispensary ("**Dispensary Agents**") who are in possession of a Dispensary Agent identification card, and (ii) equip the facility with: (a) intrusion alarms and surveillance equipment, (b) exterior and interior lighting to facilitate surveillance, (c) at least one 19-inch monitor for surveillance and a video capable of printing a high resolution still image, (d) high resolution video cameras at all points of sale, entrances, exits, and limited access areas, both in and around the building, (e) 30 days' video storage, (f) failure notifications and battery backups for the security system and (g) panic buttons inside each building.

Dispensaries may transport medical cannabis between their own sites or between their sites and another Dispensary's site and must comply with the following Rules: (i) prior to transportation, the Dispensary Agent must complete a trip plan showing: (a) the name of the Dispensary Agent in charge of transporting the cannabis, (b) the date and start time of the trip, (c) a description of the cannabis, cannabis plants, or cannabis paraphernalia being transported; and (d) the anticipated route of transportation, (ii) during transport the Dispensary Agent shall: (a) carry a copy of the trip plan at all times, (b) use a vehicle with no medical cannabis identification, (c) carry a cell phone, and (d) ensure that no cannabis is visible, and (iii) Dispensaries must maintain trip plan records.

ADHS may inspect a facility at any time upon five (5) days' notice to the Dispensary. However, if someone has alleged that the Dispensary is not in compliance with the AMMA or the Rules, ADHS may conduct an unannounced inspection. ADHS will provide written notice to the Dispensary of any violations found during any inspection and the Dispensary then has 20 working days to take corrective action and notify ADHS.

ADHS must revoke a Certificate if a Dispensary: (i) operates before obtaining approval to operate a dispensary from the ADHS, (ii) dispenses, delivers, or otherwise transfers cannabis to an entity other than another dispensary with a valid dispensary registration certificate issued by the ADHS, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, (iii) acquires usable cannabis or mature cannabis plants from any entity other than another dispensary with a valid dispensary registration certificate issued by the ADHS, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, or (iv) if a principal officer or board member has been convicted of an excluded felony offense.

Furthermore, ADHS may revoke a Certificate if a Dispensary does not: (i) comply with the requirements of the AMMA or the Rules, (ii) implement the policies and procedures or comply with the statements provided to the ADHS with the dispensary's application.

Components of Our Results of Operations

Revenue

We derive the majority of our revenue from wholesale of cannabis product to dispensary locations which represents approximately 70% of our revenue. Our revenue from retail dispensary locations represents the remaining 30%.

Gross Profit

Gross profit is our revenue less cost of goods sold. Cost of goods sold includes the direct costs attributable to the production of the products sold in a company. Cost of goods sold are comprised of the following:

- Direct Labor Costs: These expenses include all salaries, benefits, and taxes for all employees at the facility.
- Direct Supplies: The total direct material cost for maintenance of the plants, the supplies and nutrients, and the production expenses and equipment used to process medical marijuana.
- Facility Expenses: The facility expense for the cultivation operations is the cost for the facility, utilities, property taxes, maintenance, and costs associated with monitoring the security systems.
- Other Operating Expenses: These expenses include all costs associated with the facility itself including: insurance, community outreach programs, professional services, uniforms, employee training programs, tracking and inventory management systems, product testing, distribution, business development, back office expenses related to accounting, finance, human resources, and information technology and license renewal fees.

Cannabis costs are affected by various state regulations that limits the sourcing and procurement of cannabis product, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes.

Selling, General and Administrative Expenses ("SG&A")

SG&A expenses consist of mainly salary and benefit cost of executive and back office staff, professional fees such as legal and accounting, travel and entertainment, and office rent expense.

Selling costs generally correlate to revenue. As a percentage of sales, we expect selling costs to decrease slightly as our business continues to grow. The decrease is expected to be driven primarily by efficiencies associated with scaling the business.

For the three and nine months ended September 30, 2018 and year ended December 31, 2017, selling, general and administrative expenses were comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2018	**2017**	**2018**	**2017**	**2017**
Salaries and Related	$ 1,759,572	$ 423,050	$ 3,487,901	$ 998,904	$ 1,464,954
Consulting and Professional Fees	572,430	276,904	1,253,900	574,284	1,048,829
Travel and Entertainment	286,262	71,215	556,984	116,870	255,606
Rent	177,883	47,303	402,995	89,364	159,708
Office	78,316	14,904	238,561	43,370	147,167
Other	1,030,612	28,984	1,669,995	420,933	1,491,482
Total	**$ 3,905,075**	**$ 862,360**	**$ 7,610,336**	**$ 2,243,725**	**$ 4,567,746**

Income Taxes

The Company is a limited liability company that has elected to be treated as a partnership for federal income tax purposes. Under federal law, the taxable income or loss of a limited liability company is allocated to its members. Accordingly, no provision has been made for federal income taxes. The Company is responsible for certain other state taxes.

SELECTED FINANCIAL INFORMATION

The Company reports results of operations of its affiliates from the date that control commences, either through the purchase of the business or control through a management agreement. The following selected financial information includes only the results of operations after the Company established control of its affiliates. Accordingly, the information included below may not be representative of the results of operations if such affiliates had included their results of operations for the entire reporting period.

The following table sets forth selected combined financial information for the periods indicated that was derived from our audited combined financial statements and unaudited interim combined financial statements and the respective accompanying notes prepared in accordance with IFRS.

The selected combined financial information set out below may not be indicative of the Company's future performance:

	As of and for the					
	Three Months Ended September 30,		**Nine Months Ended September 30,**		**Year Ended December 31,**	
	2018	**2017**	**2018**	**2017**	**2017**	**2016**
Net Revenue	$12,171,710	$2,798,474	$25,051,844	$7,203,526	$10,310,003	$3,157,232
Cost of Goods Sold	$6,738,753	$2,770,831	$15,085,351	$7,157,448	$11,320,233	$7,912,252
Gross Profit	$8,172,521	$827,907	$14,876,626	$1,513,781	$478,944	($4,160,441)
Total Expenses	$4,374,785	$1,013,048	$8,817,172	$2,554,759	$4,606,505	$3,617,175
Net Income (Loss) Attributed to Controlling Interest	$2,878,621	($156,034)	$4,860,103	($947,307)	($3,175,353)	($7,724,403)
Total Assets	$149,461,287	$29,741,061	$149,461,287	$29,741,061	$41,617,307	$11,516,407
Long Term Debt	$ -	$468,750	$ -	$468,750	$ -	$562,500

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Net Revenue

Net revenue for the three months ended September 30, 2018 was $12,171,710, an increase of $9,373,236, or 335.0%, compared to revenue of $2,798,474 for the three months ended September 30, 2017. The increase in revenue was driven by an 85% increase in the number of patients in the Illinois market of which our market share increased from 23.4% in 2017 to 25.5% in 2018. The launch of our Pennsylvania market in February 2018 also led to incremental revenue of $6,492,504.

Cost of Goods Sold and Gross Profit

Cost of goods sold for the three months ended September 30, 2018 was $6,738,753, an increase of $3,967,922 compared to a cost of goods sold of $2,770,831 for the three months ended September 30, 2017. Gross profit for the three months ended September 30, 2018 was $8,172,521, representing a gross margin of 67%, compared with gross profit of $827,907 for the three months ended September 30, 2017. The increases in cost of goods sold and gross profit were due to the increase of revenue during the respective time periods and increased cost efficiencies gained from the expansion of our cultivation facilities. Retail sales were also introduced in 2018 contributing to the higher profit margins.

Total Expenses

Total expenses for the three months ended September 30, 2018 were $4,374,785, an increase of $3,361,737, or 332%, compared to total expenses of $1,013,048 for the three months ended September 30, 2017. The increase in total expenses was attributable to a significant increase in employee headcount and additional administrative expenses necessary for our expansion into new markets during this three-month period.

Total Other Income (Expense)

Total other income for the three months ended September 30, 2018 was $137,871, an increase of $108,764 compared to total other income of $29,107 for the three months ended September 30, 2017. The increase in total other income was due to our share of income from investment in associates. During the three months ended September 30, 2018, other income increased by $177,962 for our pro-rata share of Lighthouse's and TINAD's net income.

Provision for Income Taxes

The Company is a limited liability company that has elected to be treated as a partnership for federal income tax purposes. Under federal law, the taxable income or loss of a limited liability company is allocated to its members. Accordingly, no provision has been made for federal income taxes. The Company is responsible for certain other state taxes.

Net Income (Loss) Attributable to Controlling Interest

Net income attributable to controlling interest for the three months ended September 30, 2018 was $2,878,621, an increase of $3,034,655, or 1,945% compared to a net loss of $156,034 for the three months ended September 30, 2017. The increase in net income was driven by the inclusion of retail dispensary sales and increased cost efficiencies gained from the expansion of both Illinois and Pennsylvania cultivation facilities.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Net Revenue

Net revenue for the nine months ended September 30, 2018 was $25,051,844, an increase of $17,848,318, or 248%, compared to revenue of $7,203,526 for the nine months ended September 30, 2017. The increase in revenue was driven by cultivation and dispensary sales in Pennsylvania market adding incremental revenue of $10,965,803.

Cost of Goods Sold and Gross Profit

Cost of goods sold for the nine months ended September 30, 2018 was $15,085,351, an increase of $7,927,903 compared to $7,157,448 for the nine months ended September 30, 2017. Gross profit for the nine months ended September 30, 2018 was $14,876,626, representing a gross margin of 59.4%, compared with gross profit of $1,513,781 for the nine months ended September 30, 2017. The increases in cost of goods sold and gross profit were mainly due to the launch of the cultivation and dispensary operation in the Pennsylvania market.

Total Expenses

Total expenses for the nine months ended September 30, 2018 were $8,817,172, an increase of $6,262,413 compared to total expenses of $2,554,759, or 245%, for the nine months ended September 30, 2017, which represents 35.2% of revenue for the nine months ended September 30, 2018 compared to 35.5% of revenue for the nine months ended September 30, 2017. The increase in total expenses was attributable to the launch of the cultivation and dispensary operation in the Pennsylvania market and the expansion of the Joliet cultivation facility in Illinois.

Total Other Income (Expense)

Total other income for the nine months ended September 30, 2018 was $458,494, an increase of $364,823 compared to total other income of $93,671 for the nine months ended September 30, 2017.

Provision for Income Taxes

The Company is a limited liability company that has elected to be treated as a partnership for federal income tax purposes. Under federal law, the taxable income or loss of a limited liability company is allocated to its members. Accordingly, no provision has been made for federal income taxes. The Company is responsible for certain other state taxes.

Net Income (Loss) Attributable to Controlling Interest

Net income attributable to controlling interest for the nine months ended September 30, 2018 was $4,860,103, an increase of $5,807,410, or 613% compared to a net loss of $947,307 for the nine months ended September 30, 2017. The increase in net income resulted from higher revenues in the Illinois market driven by an 85% increase in the number of patients in the Illinois market of which our market share increased from 23.4% in 2017 to 25.5% in 2018, as well as the incremental revenue from our Pennsylvania launch.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Net Revenue

Net revenue for the year ended December 31, 2017 was $10,310,003, an increase of $7,152,771, or 226.6%, compared to revenue of $3,157,232 for the year ended December 31, 2016. The increase in revenue was driven by the full year impact of operations in Illinois 2017, an increase in patient count of 103% from prior year, and an increase in market share from 15.3% to 23.5%.

Cost of Goods Sold and Gross Profit (Loss)

Cost of goods sold for the year ended December 31, 2017 was $11,320,233, an increase of $3,407,981 compared with cost of goods sold of $7,912,252 for the year ended December 31, 2016. Gross profit for the year ended December 31, 2017 was $478,944, representing a gross margin of 4.6%, compared with gross loss of $4,160,441 for the year ended December 31, 2016. The increases in cost of goods sold and gross profit were due to the expansion of the Illinois program which led to higher revenues, cost of good sold, and gross profit.

Total Expenses

Total expenses for the year ended December 31, 2017 were $4,606,505, an increase of $989,330, or 27.3%, compared to total expenses of $3,617,175 for the year ended December 31, 2016, which represents 44.7% of revenue for the year ended December 31, 2017 compared to 114.6% of revenue for the year ended December 31, 2016. The increase in total expenses was attributable to higher Selling, General and Administrative Costs of $973,307 mainly driven from higher salary, professional fees, and travel expenses.

Total Other Income (Expense)

Total other income for the year ended December 31, 2017 was $140,038, an increase of $86,825 compared to total other expense of $53,213 for the year ended December 31, 2016.

Provision for Income Taxes

The Company is a limited liability company that has elected to be treated as a partnership for federal income tax purposes. Under federal law, the taxable income or loss of a limited liability company is allocated to its members.

Accordingly, no provision has been made for federal income taxes. The Company is responsible for certain other state taxes.

Net Loss Attributable to Controlling Interest

Net loss attributable to controlling interest for the year ended December 31, 2017 was $3,175,353, a decrease of $4,549,050, or 58.9%, compared to a net loss of $7,724,403 for the year ended December 31, 2016. The decrease in net loss was driven by higher net revenue of $7,152,771, or 226.6%, associated with an increase in patient count of 103% from prior year, and an increase in market share from 15.3% to 23.5%.

LIQUIDITY AND CAPITAL RESOURCES

Overview

As of September 30, 2018, we held $93,916,298 in cash and cash equivalents, and $105,324,756 of working capital (current assets minus current liabilities), compared with $27,043,219 in cash and cash equivalents, and $29,971,610 of working capital as of December 31, 2017.   The increase of $75,353,146 in working capital was primarily due to capital contributions from members of $95,689,697, partially offset by cash used in investing activities.

We expect that our cash on hand and cash flows from operations, along with private and/or public financing, will be adequate to meet our capital requirements and operational needs for the next 12 months.

Cash Flows

Operating Activities

Net cash used in operating activities was $965,239 for the nine months ended September 30, 2018, an increase of $664,526 compared to $300,713 for the nine months ended September 30, 2017. The increase in net cash used in operating activities was primarily due to higher working capital requirements, partially offset by higher net income.

Net cash used in operating activities was $3,640,009 for the year ended December 31, 2017, a decrease of $6,926,652 compared to $10,566,661 for the year ended December 31, 2016. The decrease in net cash used in operating activities was primarily due to reduction in operating loss from prior year of $3,736,880.

Investing Activities

Net cash used in investing activities was $27,783,254 for the nine months ended September 30, 2018, an increase of $26,381,865 compared to $1,401,389 used in investing for the nine months ended September 30, 2017. The increase in net cash used in investing activities was primarily due increases in the purchase of property and equipment , purchases of investments, and acquisitions of businesses in the current period of $17,561,891, $6,351,000, and $2,014,974, respectively.

Net cash used in investing activities was $1,102,067 for the year ended December 31, 2017, an increase of $1,722,011 compared to $619,944 provided by investing for the year ended December 31, 2016. The increase in net cash used in investing activities was primarily due an increase in the purchase of property and equipment of $3,954,435, partially offset by an increase in the net change due from related parties of $1,502,035.

Financing Activities

Net cash provided by financing activities was $95,621,572 for the nine months ended September 30, 2018, an increase of $82,088,549 compared to $13,533,023 for the nine months ended September 30, 2017. The increase in net cash provided by financing activities was primarily due to an increase in capital contributions from members of $82,062,924.

Net cash provided by financing activities was $30,484,831 for the year ended December 31, 2017, an increase of $29,012,331 compared to $1,472,500 for the year ended December 31, 2016. The increase in net cash provided by financing activities was primarily due to capital contributions from members of $30,719,206.

CONTRACTUAL OBLIGATIONS

As of the nine months ended September 30, 2018, and in the normal course of business, the Company has the following obligations to make future payments, representing contracts and other commitments that are known and committed.

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The Company leases its Chicago, Illinois headquarters under a non-cancelable sublease agreement with an affiliated entity, which expires in July 2019 (this sublease agreement is pursuant to a master lease agreement). Rent expense increased year-over-year to $110,000 for the nine months ended September 30, 2018 with the addition of a second floor sublease agreement compared to $160,000 for the year ended December 31, 2017, respectively, which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

The Company leases its cultivation facilities in Joliet, Lincoln, and Kankakee, Illinois from an affiliated entity. The commencement dates of the non-cancelable leases are determined based upon a Substantial Completion Date, as defined in the lease agreements, or six months after the Illinois Department of Agriculture awards the license. The Joliet lease commenced in December 2015, the Lincoln lease commenced in February 2016, and the Kankakee lease commenced in April 2016. The terms of these lease agreements are fifteen years from the commencement date. Rent expense for these facilities was approximately $3,140,000 and $4,317,000 for the nine months ended September 30, 2018 and year ended December 31, 2017, respectively, which is included in cost of goods sold in the accompanying consolidated statements of operations. For financial reporting purposes, rent expense has been recorded on a straight-line basis over the terms of the leases resulting in deferred rent of approximately $1,786,000 and $1,587,000 as of September 30, 2018 and December 31, 2017, respectively.

The Company leases its cultivation facility in Brookville, Pennsylvania. The non-cancelable lease commenced on June 30, 2017, upon the announcement of a successful license application, and terms after 60 months. Rent expense was approximately $121,500 and $138,000 as of September 30, 2018 and December 31, 2017, respectively. The Company leases dispensary locations in Butler, Pennsylvania and Pittsburgh, Pennsylvania with 60-month terms and the option to extend. Rent expense was approximately $115,000 and $72,000 as of September 30, 2018 and December 31, 2017, respectively, with approximately $41,700 and $14,000 in deferred rent liability.

The Company leases a dispensary location in Wintersville, Ohio with a 60-month term and the option to extend. Rent expense was approximately $12, for the three months ended September 30, 2018 and $12,000 for the nine months ended September 30, 2018, with no deferred rent liability as of September 30, 2018.

Future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

Year Ending December 31, 2017	**Scheduled Payments**
2018	$3,942,436
2019	$3,740,618
2020	$3,805,790
2021	$3,918,776
2022	$4,035,151
2023-2031	$36,811,610
Total Future Minimum Lease Payments	**$56,254,381**

In addition to the future minimum rentals disclosed above, the Company is responsible for real estate taxes and comment operating expenses incurred by the building or facility in which it leases space. The Company was also required to pay to the affiliate a security deposit. The balance of the security deposit paid to the affiliate was approximately $1,354,000 and $1,325,000 as of September 30, 2018 and December 31, 2017, respectively.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

The Company has no material undisclosed off-balance sheet arrangements or proposed transactions that have, or are reasonably likely to have, a current or future effect on its results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources that are material to investors.

RELATED PARTY TRANSACTIONS

Management Fees and Services

The Company incurred the following transactions with related parties during the nine months ended September 30, 2018 and September 30, 2017, and year ended December 31, 2017:

	Nine Months Ended September 30,		Year Ended December 31,
	2018	2017	2017
Promissory Note Agreements with Founders	$0	$468,750	$328,125
Office and Operating Leases	$5,036,000	$4,783,000	$6,064,000
	$5,036,000	$5,251,750	$6,392,125

Related Party Balances

As of December 31, 2017, and September 30, 2018, amounts due to/from related parties were as follows:

	September 30, 2018	December 31, 2017
Amounts Due from Related Parties	$0	$0
Amounts Due to Related Parties	$1,522,901	$725,000
Net Amount Due to Related Parties	$1,522,901	$725,000

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

There were no new standards effective July 1, 2016 that had an impact on the Company's combined financial statements. The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future combined financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

IFRS 2, Share-based Payment

In June 2016, the IASB issued amendments to IFRS 2, Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendment provided guidance introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments. On such modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognized at the modification date fair value to the extent services have been rendered up to the modification date. Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. The adoption of this new standard has had no significant impacts on the Company’s accompanying consolidated financial statements.

IFRS 7, Financial instruments: Disclosure

IFRS 7, Financial instruments: Disclosure was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The adoption of this new standard has had no significant impacts on the Company’s accompanying consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

The IASB replaced IAS 18, Revenue, in its entirety with IFRS 15, Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The adoption of this new standard has had no significant impacts on the Company’s accompanying consolidated financial statements.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, Revenue from Contracts with Customers, at or before the date of initial adoption of IFRS 16. The Company expects significant impacts on its financial statements from the adoption of this new standard. The Company leases the majority of its cultivation facilities and dispensaries and anticipates the statement of financial position to increase by the amount determined in *Contractual Obligations.*

IAS 28, Long-term Interests

In October 2017, the IASB amended IAS 28, Long-term Interests in Associates and Joint Ventures. The amendments were added to clarify that an entity applies IFRS 9 'Financial Instruments' to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The standard which will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company does not expect significant impact on its financial statements from the adoption of this new standard.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company’s accompanying consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

Biological Assets and Inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. In calculating final inventory values, management compares the inventory cost to estimated net realizable value.

Estimated Useful Lives and Depreciation of Property and Equipment

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Estimated Useful Lives and Amortization of Intangible Assets

Amortization of intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Business Combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with International Standards on Auditing (“IAS”) 39, *Financial Instruments: Recognition and Measurement*, or IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

Unit-Based Compensation

In calculating the unit-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company’s stock price and the risk-free interest rate are used. To calculate the unit-based compensation expense related to key employee performance milestones associated with the terms of an acquisition, the Company must estimate the number of units that will be earned and when they will be issued based on estimated discounted probabilities.

Goodwill Impairment

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, accounts receivables, due from related parties, accounts payables and other accrued expenses, subscription deposits refundable, due to related party, and notes payable – related parties. The carrying values of these financial instruments approximate their fair values as of September 30, 2018 and December 31, 2017 due to their nature and relatively short maturity date. Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels valuing these assets during the year.

The following table summarizes the Company's financial instruments as of September 30, 2018:

	Loans and Receivables	Other Financial Liabilities	Total
Financial Assets:			
Cash and Cash Equivelents	$ 93,916,298	$ -	$ 93,916,298
Accounts Receivable	$ 2,897,429	$ -	$ 2,897,429
Financial Liabilities:			
Accounts Payable and Accrued Expenses	$ -	$ 5,748,055	$ 5,748,055
Due to Related Party	$ -	$ 1,522,901	$ 1,522,901

The following table summarizes the Company's financial instruments as of December 31, 2017:

	Loans and Receivables	Other Financial Liabilities	Total
Financial Assets:			
Cash	$ 27,043,219	$ -	$ 27,043,219
Accounts Receivable	$ 1,010,620	$ -	$ 1,010,620
Financial Liabilities:			
Accounts Payable and Accrued Expenses	$ -	$ 2,640,582	$ 2,640,582
Subscription Deposits Refundable	$ -	$ 399,800	$ 399,800
Notes Payable - Related Parties	$ -	$ 328,125	$ 328,125
Due to Related Party	$ -	$ 725,000	$ 725,000

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

Credit and Banking Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at September 30, 2018 and December 31, 2017 is the carrying amount of cash. The Company does not have significant credit risk with respect to its customers. Although all cash is placed with major U.S. financial institutions, there has been no change in the U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis 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 business involved with the cannabis industry.

Banks and other depository institutions are currently hindered by federal law from providing financial services to marijuana businesses, even in states where those businesses are regulated. In February 2019, the House Financial Services subcommittee took up proposed legislation, the Secure and Fair Enforcement Banking Act of 2019 or SAFE Banking Act, that would protect banks and their employees from punishment for providing services to cannabis businesses that are legal on a state level. First hearings for the SAFE Banking Act occurred in February 2019 and the bill was introduced in Congress in March 2019.

In June 2018, the STATES Act was introduced. If passed and signed into law, the STATES Act would, among other things, (i) allow legal cannabis business to have bank accounts at financial institutions; (ii) make State-legal cannabis retailers exempt from federal prosecution; (iii) set the legal age to purchase adult-use cannabis to 21 nationally, except for medical purposes; and (iii) ban cannabis distribution and consumption at highway rest areas and truck stops. The STATES Act would likely assist financial institutions in transacting with individuals and businesses in the cannabis industry without the threat of money laundering prosecution, civil forfeiture, and other criminal violations that could lead to a charter revocation. The STATES Act does not propose to remove Cannabis as a Schedule I drug under the CSA.

On December 20, 2018, Congress passed the Farm Bill became law in the United States which included the legalization of hemp which will change how hemp and hemp-derived products like CBD are regulated in the U.S., which is expected to be regulated by the United States Department of Agriculture.

Asset Forfeiture Risk

Due to the cannabis industry remaining 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.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

The Company has certain other financial liabilities recorded on its unaudited consolidated balance sheets. As of both September 30, 2018 and December 31, 2017, these liabilities are classified as current and are expected to be paid within one year or less.

Market Risk

Currency Risk

The Company had no exposure to foreign currency transaction or translation risk for the periods presented.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company’s financial debts have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices.

Tax Risk

Tax risk is the risk of changes in the tax environment that would have a material adverse effect on the Company’s business, results of operations, and financial condition. Currently, state licensed marijuana businesses are assessed a comparatively high effective federal tax rate due to section 280E which bars businesses from deducting all expenses except their cost of goods sold (COGS) when calculating federal tax liability. Any negative increase in additional tax measures may have a further adverse effect on the operations of the Company, while any decrease in tax pressures will be beneficial to future operations.

Regulatory Risk

Regulatory risk pertains to the risk that the Company’s business objectives are contingent, in part, upon the compliance of regulatory requirements. Due to the nature of the industry, the company recognizes that regulatory requirements are more stringent and punitive in nature. Any delays in obtaining, or failure to obtain regulatory approvals can significantly delay operational and product development and can have a material adverse effect on the Company’s business, results of operation, and financial condition.

The Company is cognizant of the advent of regulatory changes occurring in the cannabis industry on the city, state, and national levels. Although regulatory outlook on the cannabis industry has been moving in a positive trend, the Company is aware of the effect of unforeseen regulatory changes can have on the goals and operations of the business as a whole.