

**CRESCO LABS INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017**

*(Expressed in United States Dollars)*

**Cresco Labs Inc.**  
**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

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To the Shareholders of Cresco Labs Inc.:

Management of Cresco Labs Inc. is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgements and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the consolidated financial statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgement is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors (the "Board") is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

May 6, 2019

/s/ Charles Bachtell  
Chief Executive Officer

/s/ Kenneth Amann  
Chief Financial Officer

**Cresco Labs Inc.**  
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## **Independent Auditor's Report**

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To the Shareholders of Cresco Labs Inc.:

### **Opinion**

We have audited the consolidated financial statements of Cresco Labs Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations and comprehensive income/(loss), changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Matter**

The consolidated financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on May 5, 2019.

### **Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Chayim David Danziger.

Toronto, Ontario  
May 6, 2019

*MNP* LLP  
Chartered Professional Accountants  
Licensed Public Accountants

**MNP**

**Cresco Labs Inc.**  
**Consolidated Statements of Financial Position**  
**As of December 31, 2018 and 2017**  
*(In thousands of United States Dollars)*

		<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents		\$ 131,302	\$ 27,043
Restricted Cash	<i>Note 2 (g)</i>	6,726	-
Accounts Receivable, Net	<i>Note 4</i>	3,658	1,011
Biological Assets	<i>Note 5</i>	17,673	2,637
Inventory, Net	<i>Note 6</i>	24,521	3,191
Loans Receivable, Short-Term	<i>Note 18</i>	7,726	-
Other Current Assets		1,098	183
Total Current Assets		192,704	34,065
Property and Equipment, Net	<i>Note 7</i>	39,721	4,973
Intangible Assets, Net	<i>Note 9</i>	25,464	247
Loans Receivable, Long-Term	<i>Note 18</i>	7,280	-
Investments	<i>Note 8</i>	433	990
Security Deposits - Related Parties	<i>Note 17, 18</i>	1,363	1,342
Goodwill	<i>Note 9</i>	51,146	-
<b>TOTAL ASSETS</b>		<b>\$ 318,111</b>	<b>\$ 41,617</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable and Other Accrued Expenses	<i>Note 10</i>	\$ 7,595	\$ 2,641
Subscription Deposits Refundable	<i>Note 18</i>	-	400
Due to Related Party	<i>Note 17</i>	-	725
Notes Payable – Related Parties	<i>Note 17</i>	-	328
Income Tax Payable	<i>Note 22</i>	2,584	-
Deferred Consideration and Other Payables	<i>Note 13</i>	14,873	-
Derivative Liabilities	<i>Note 18</i>	178	-
Total Current Liabilities		25,230	4,094
Long-Term Liabilities:			
Deferred Rent		2,199	1,587
Derivative Liabilities – Long Term	<i>Note 18</i>	146	-
Deferred Tax Liability	<i>Note 22</i>	4,459	-
Contingent Consideration	<i>Note 13</i>	3,096	-
Total Long-Term Liabilities		9,900	1,587
<b>TOTAL LIABILITIES</b>		<b>35,130</b>	<b>5,681</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Share Capital	<i>Note 11</i>	162,182	36,958
Contributed Surplus	<i>Note 12</i>	11,594	655
Accumulated Deficit		(52,745)	(15,935)
Equity of Cresco Labs, Inc.	<i>Note 11, 12</i>	121,031	21,678
Non-Controlling Interest (NCI)	<i>Note 11</i>	161,950	14,258
<b>TOTAL EQUITY</b>		<b>282,981</b>	<b>35,936</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 318,111</b>	<b>\$ 41,617</b>

See accompanying notes to consolidated financial statements.

**Cresco Labs Inc.**  
**Consolidated Statements of Financial Position**  
**As of December 31, 2018 and 2017**  
*(In thousands of United States Dollars)*

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Nature of Operations *(Note 1)*  
Commitments and Contingencies *(Note 16)*  
Subsequent Events *(Note 23)*

Approved and authorized for issue on behalf of the Shareholders on May 6, 2019:

*/s/ Charles Bachtell*  
\_\_\_\_\_  
Chief Executive Officer

*/s/ Kenneth Amann*  
\_\_\_\_\_  
Chief Financial Officer

See accompanying notes to consolidated financial statements.

**Cresco Labs Inc.**  
**Consolidated Statements of Operations and Comprehensive Income/(Loss)**  
**For the Years Ended December 31, 2018 and 2017**  
*(In thousands of United States Dollars, except per share data)*

		Year Ended December 31,	
		2018	2017
Revenue	<i>Note 2 (q)</i>	\$ 43,252	\$ 10,982
Costs of Goods Sold of Inventories		(28,218)	(10,724)
Realized Changes in Fair Value of Inventory Sold		(27,180)	(595)
Unrealized Gain on Changes in Fair Value of Biological Assets	<i>Note 5</i>	52,563	1,489
Gross Profit		<u>40,417</u>	<u>1,152</u>
Expenses:			
Selling, General and Administration	<i>Note 14</i>	34,780	5,241
Depreciation and Amortization	<i>Note 7,9</i>	692	39
Total Expenses		<u>35,472</u>	<u>5,280</u>
Gain (Loss) from Operations		4,945	(4,128)
Other Income (Loss):			
Interest Income, Net		89	46
Other Income, Net	<i>Note 15</i>	2,781	94
Loss from Investment in Associate		(348)	-
Total Other Income, Net		<u>2,522</u>	<u>140</u>
<b>Income (Loss) Before Income Taxes</b>		<u>7,467</u>	<u>(3,988)</u>
Income Tax (Expense) Recovery	<i>Note 22</i>	(4,374)	-
<b>Net Income (Loss) and Comprehensive Income/(Loss)</b>		<u>\$ 3,093</u>	<u>\$ (3,988)</u>
Net Income/(Loss) and Comprehensive Income/(Loss) Attributable to Non-Controlling Interests, Net of Tax		<u>5,008</u>	<u>(812)</u>
<b>Net Loss and Comprehensive Loss Attributable to Controlling Interest</b>		<u><u>\$ (1,915)</u></u>	<u><u>\$ (3,176)</u></u>
Net Loss Per Share – Attributable to Cresco Labs Inc. Shareholders			
Basic	<i>Note 21</i>	\$ (0.03)	\$ (0.12)
Diluted	<i>Note 21</i>	\$ (0.03)	\$ (0.12)

See accompanying notes to consolidated financial statements.



**Cresco Labs Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Years Ended December 31, 2018 and 2017**  
*(In thousands of United States Dollars)*

Share Class	Notes	\$ Amount					Total
		Share Capital	Shares to be Issued	Contributory Surplus	Accumulated Deficit	NCI	
-Balance as of December 31, 2016		21,310	-	654	(12,759)	-	9,204
Issuance of Units	<i>Note 11</i>	15,648	-	-	-	15,070	30,719
Share-based Compensation - Options	<i>Note 12</i>	-	-	1	-	-	1
Net Loss		-	-	-	(3,176)	(812)	(3,988)
Balance as of December 31, 2017		<b>36,958</b>	-	<b>655</b>	<b>(15,935)</b>	<b>14,258</b>	<b>35,936</b>
Exercise of options and warrants	<i>Note 11(c), 12</i>	257	-	(100)	-	-	157
Stock Dividend	<i>Note 11(d)</i>	3,465	-	-	(3,465)	-	-
Other Unit Issuances	<i>Note 11</i>	339	567	-	-	-	906
Non-controlling interest recognized in business combinations	<i>Note 11, 13</i>	-	-	-	-	6,377	6,377
Non-controlling interest contribution	<i>Note 11</i>	-	-	-	-	5,280	5,280
Change in ownership interest	<i>Note 11</i>	56,150	-	-	(31,430)	(24,720)	-
Class F equity financing - May, net of issuance costs	<i>Note 11(b)(ii)</i>	23,589	-	-	-	-	23,589
Class F Equity Financing - October, net of issuance costs	<i>Note 11(b)(iii)</i>	99,207	-	-	-	-	99,207
Shares issued pursuant to reverse takeover	<i>Note 3, 11</i>	1,693	-	-	-	-	1,693
November Private Placement, net of share issuance costs	<i>Note 11(b)(v)</i>	74,549	-	-	-	-	74,549
Formation of Cresco Labs, Inc and Cresco Labs, LLC NCI at RTO	<i>Note 11</i>	(155,747)	-	-	-	155,747	-
Shares issued in Business Combinations	<i>Note 13, 18(c)</i>	1,398	19,497	-	-	-	20,895
Equity-based Compensation Expense	<i>Note 12</i>	-	-	10,464	-	-	10,464
Warrant Expense	<i>Note 12(c)</i>	-	-	1,095	-	-	1,095
Establishment of deferred tax liability due to RTO	<i>Note 12</i>	-	-	(520)	-	-	(520)
Repayment of subscription receipt	<i>Note 11</i>	260	-	-	-	-	260
Net Income/(Loss)		-	-	-	(1,915)	5,008	3,093
Ending Balance, December 31, 2018		<b>142,118</b>	<b>20,064</b>	<b>11,594</b>	<b>(52,745)</b>	<b>161,950</b>	<b>282,981</b>

See accompanying notes to consolidated financial statements.

**Cresco Labs Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2018 and 2017**  
*(In thousands of United States Dollars)*

	For the Year Ended	
	December 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$ 3,093	\$ (3,988)
Adjustments to Reconcile Net Income to Net Cash (Used in) Provided by Operating Activities:		
Depreciation and Amortization	2,172	646
Share-based Compensation Expense	10,464	1
Loss from Associate	448	-
Unrealized Loss (Gain) on Investments at FVTPL	109	(27)
Loss (Gain) on Derivative Instruments	(861)	-
Non-cash Listing Expense and Other Financing Fees	2,178	-
Gain on Revaluation of Previously Held Equity Investment	(2,640)	-
Realized Changes in Fair Value of Inventory Sold	27,180	595
Unrealized Gain on Changes in Fair Value of Biological Assets	(52,563)	(1,489)
Deferred Tax Expense (Recovery)	1,515	-
Loss on Sale of Property and Equipment	-	11
Changes in Operating Assets and Liabilities:		
Accounts Receivables	(2,588)	(568)
Inventory	(45,490)	(1,743)
Biological assets	41,681	-
Other Current Assets	(820)	(73)
Security Deposits with Related Parties	57	-
Accounts Payable and Other Accrued Expenses	2,953	957
Deferred Rent	612	778
Income Tax Payable	2,584	-
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(9,916)</b>	<b>(4,900)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of Property and Equipment	(27,726)	(4,057)
Purchases of Property and Equipment in an Asset Acquisition	(1,436)	-
Purchase of Investments	(901)	(68)
Loans Receivables for Entities to be Acquired	(13,859)	-
Cash Paid for Acquisitions, Net of Cash Acquired	(37,078)	-
Sale of Investments	-	699
Cash Received from the Sale of Property	-	5
Net Change in Due to Related Parties	-	2,319
Purchase of Intangibles	(782)	(590)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(81,782)</b>	<b>(1,692)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Capital Contributions from Members	-	30,719
Private Placement - May 2018	23,589	-
Private Placement - October 2018	101,415	-
Private Placement in Connection with RTO	80,642	-
Issuance Costs	(7,206)	-
NCI Contributions	5,279	-
Repayment of Related Party Payables and Notes	(1,053)	-
Proceeds from Exercise of Stock Options and Warrants	157	-
Principal Repayments of Notes Payable	-	(234)
Loan from Related Parties	-	725
Investment Payable	-	1,125
Cash Received from Subscription Receivable	260	-
Subscription Deposits Refunded	(400)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>202,683</b>	<b>32,335</b>
<b>NET INCREASE IN CASH</b>	<b>110,985</b>	<b>25,743</b>
Cash and Cash Equivalents and Restricted Cash, Beginning of Period	27,043	1,300

See accompanying notes to consolidated financial statements.

**Cresco Labs Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2018 and 2017**  
*(In thousands of United States Dollars)*

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<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD</b>	\$	<u>138,028</u>	\$	<u>27,043</u>
<b>CASH PAID DURING THE PERIOD FOR:</b>				
Interest	\$	<u>24</u>	\$	<u>60</u>
<b>NON-CASH TRANSACTIONS:</b>				
Shares Issued for Acquisitions and Escrows <i>(Note 13 and Note 18)</i>	\$	21,463	\$	-
NCI Recognized in Business Combinations	\$	6,378	\$	-
Previously held Interest in Business Combination	\$	3,641	\$	-
Deferred and Contingent Consideration for Acquisitions	\$	17,875	\$	-
Derivative Liability Incurred for Business Combinations	\$	459	\$	-

See accompanying notes to consolidated financial statements.

**Cresco Labs Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

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**1. NATURE OF OPERATIONS**

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Cresco Labs Inc. (“Cresco” or the “Company”), formerly known as Randsburg International Gold Corp. was incorporated in the Province of British Columbia under the Company Act (British Columbia) on July 6, 1990. On December 30, 1997, the Company changed its name from Randsburg Gold Corporation to Randsburg International Gold Corp. (“Randsburg”) and consolidated its common shares on a five-old for one-new basis.

On November 30, 2018, in connection with the Reverse Takeover (as described further in Note 3), the Company (i) consolidated its outstanding Randsburg Common Shares on an 812.63 old for one (1) new basis, and (ii) filed an alteration to its Notice of Articles with the British Columbia Registrar of Companies to change its name from Randsburg to Cresco Labs Inc. and to amend the rights and restrictions of its existing classes of common shares, redesignate such classes as the class of Subordinate Voting Shares, and create the classes of Proportionate Voting Shares and the Super Voting Shares.

Pursuant to the Reverse Takeover, among the Company (then Randsburg) and Cresco Labs, LLC (“Cresco Labs”), a series of transactions was completed on November 30, 2018 resulting in a reorganization of Cresco Labs and Randsburg and pursuant to which Randsburg became the indirect parent and sole voting unitholder of Cresco. The transaction constituted a reverse takeover of Randsburg by Cresco Labs under applicable securities laws. Cresco Labs was formed as a limited liability company under the laws of the state of Illinois on October 8, 2013 and is governed by the Pre-Combination LLC Agreement. The Pre-Combination LLC Agreement was further amended and restated in connection with the completion of the Reverse Takeover.

The 2017 comparative amounts presented in these financial statements are those of Cresco Labs, LLC.

On December 3, 2018, the Company began trading on the Canadian Securities Exchange (“CSE”) under the ticker symbol “CL.” On March 6, 2019, Cresco shares was approved to be quoted on the Over-the-Counter Market (“OTC”) and will trade under the ticker symbol “CRLBF.”

The Company is licensed to cultivate, manufacture and sell medical cannabis and medical cannabis products. The Company operates in and/or has ownership interests in Illinois, Pennsylvania, Ohio, California, Maryland, and Arizona pursuant to the Illinois Compassionate Use of Medical Cannabis Pilot Program Act, the Pennsylvania Compassionate Use of Medical Cannabis Act, the Ohio Medical Marijuana Control Program, the California Medicinal and Adult-Use Cannabis Regulation and Safety Act, the Maryland Medical Marijuana Act, and the Arizona Medical Marijuana Act, respectively (collectively, the “Acts”).

The Company's head office is located at 400 W Erie St, Chicago, IL 60654 and the registered office is located at Suite 2200, 1055 West Hastings Street, Vancouver, BC V6E 2E9.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**(a) Basis of Preparation**

The accompanying consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”) in effect for the years ended December 31, 2018 and 2017.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on May 6, 2019.

**Cresco Labs Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

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**(b) Basis of Measurement**

These accompanying consolidated financial statements have been prepared on the going concern basis, under the historical cost convention, except for biological assets and certain investments, which are measured at fair value; certain investments and associates, which are accounted for under the equity method; loans receivable measured at fair value through profit or loss (“FVTPL”); and certain investments and derivative instruments, which are recorded at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

**(c) Classification of Expenses**

The expenses within the accompanying statements of operations are presented by function. See Note 14 for details of expenses by nature.

**(d) Functional and Presentation Currency**

The Company’s functional currency and that of all its subsidiaries, as determined by management, is the United States (“U.S.”) dollar. The Company’s presentation currency is the U.S. dollar. As such, these accompanying consolidated financial statements are presented in U.S. dollars. All references to “C\$” refer to Canadian dollars. Foreign currency denominated assets and liabilities are re-measured into the functional currency using period-end exchange rates. Gains and losses from foreign currency transactions are included in other expense in the Consolidated Statements of Operations and Comprehensive Income.

**(e) Basis of Consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. The following are Cresco’s wholly-owned subsidiaries and entities over which the Company has control as of December 31, 2018:

**Cresco Labs Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

Entity	Location	Purpose	Percentage Held
Cresco Labs Inc.	British Columbia, Canada	Parent Company	
Cresco U.S. Corp.	Illinois	Manager of Cresco Labs, LLC	100%
Cresco Labs, LLC	Illinois	Operating Entity	43.1%

Entity	Location	Purpose	Percentage Held
Cresco Labs, LLC	Illinois	Operating Entity	
Cresco Labs Ohio, LLC	Ohio	Cultivation, Production, and Dispensary Facility	99%
Cresco Labs SLO, LLC	California	Holding Company	100%
SLO Cultivation Inc.	California	Cultivation and Production Facility	80%
Cresco Labs Joliet, LLC	Illinois	Cultivation and Production Facility	100%
Cresco Labs Kankakee, LLC	Illinois	Cultivation and Production Facility	100%
Cresco Labs Logan, LLC	Illinois	Cultivation and Production Facility	100%
Cresco Labs PA, LLC	Pennsylvania; Registered: Illinois	Holding Company	100%
Cresco Yeltrah, LLC	Pennsylvania	Cultivation, Production, and Dispensary Facility	100%
Cresco Labs Arizona, LLC	Arizona	Holding Company	100%
Encanto Green Cross Dispensary, LLC	Arizona	Dispensary	100%
Cresco Labs Tinad, LLC	Illinois	Holding Company	100%
PDI Medical III, LLC	Illinois	Dispensary	100%
MedMar Inc.	Illinois	Holding Company	100%
MedMar Lakeview, LLC	Illinois	Dispensary	75%
MedMar Rockford, LLC	Illinois	Dispensary	87.5%
Cresco Labs Phoenix Farms, LLC	Illinois	Holding Company	100%
Phoenix Farms of Illinois, LLC	Illinois	Dispensary	89.5%
JDC Elmwood, LLC	Illinois	Holding Company	100%
Flora Medex, LLC	Illinois	Dispensary	100%
Cresco Edibles, LLC	Illinois	Holding Company	100%
TSC Cresco, LLC	Illinois	Licensing	75%

As Cresco U.S. Corp., which is wholly owned by the Company, is the sole manager of Cresco Labs, LLC, the Company controls Cresco Labs, LLC and has consolidated its results in these financial statements.

Non-controlling interests (“NCI”) represent ownership interests in consolidated subsidiaries by parties that are not shareholders of the Company. They are shown as a component of total equity in the Consolidated Statements of Financial Position, and the share of income (loss) attributable to non-controlling interests is shown as a component of net income (loss) in the Consolidated Statements of Operations and Comprehensive Income. Changes in the parent company’s ownership that do not result in a loss of control are accounted for as equity transactions.

**(f) Cash and Cash Equivalents**

Cash and cash equivalents include cash deposits in financial institutions, other deposits that are readily convertible into cash and cash on hand. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**(g) Restricted Cash**

Restricted cash represents amounts held in escrow related to the Company’s pending acquisitions. The Company held \$6,726 thousand and nil restricted cash as of December 31, 2018 and 2017, respectively.

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**(h) Accounts Receivable**

Accounts receivables are classified as financial assets initially recognized at fair value and subsequently measured at amortized cost, less any provisions for impairment. When an account receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the Consolidated Statements of Operations and Comprehensive Income.

**(i) Biological Assets**

The Company's biological assets consist of medical cannabis plants and are valued at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of internally produced Work-in-process and Finished Goods inventory after harvest. The net unrealized gains or losses arising from changes in fair value less costs to sell during the year are included in the Consolidated Statements of Operations and Comprehensive Income.

All production costs related to biological assets are expensed as incurred and are included as cost of goods sold. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labor for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line on the face of the income statement.

The Company capitalizes cost incurred after harvest to bring the products to their present location and condition in accordance with International Accounting Standards ("IAS") 2 *Inventories*.

**(j) Inventory**

Inventories of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost. Any subsequent post-harvest costs are capitalized to inventory. Post-harvest costs include costs such as materials, labor and depreciation expense on equipment involved in manufacturing, packaging, labeling and inspection. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Products for resale and supplies and consumables are valued at lower of cost and net realizable value.

The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory is written-down to net realizable value. As of December 31, 2018 and December 31, 2017, the Company recorded inventory reserves of \$173 thousand and \$125 thousand, respectively.

**(k) Property and Equipment**

Property and equipment is stated at cost, net of accumulated depreciation. Land is recorded at cost. Depreciation is calculated using the straight-line method over the useful life of the asset. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate. Equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the accompanying Consolidated Statements of Operations and Comprehensive Income in the year the asset is derecognized.

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<u>Category</u>		<u>Estimated Useful Life</u>
Leasehold Improvements	Amortized over the lesser of the life of the lease or estimated useful life of the improvement	8 - 15 years
Machinery and Equipment	Over the estimated useful life of the asset	5 - 20 years
Furniture and Fixtures	Over the estimated useful life of the asset	3 - 7 years
Vehicles	Over the estimated useful life of the asset	5 years
Website and Software	Over the estimated useful life of the asset	3 years
Computer Equipment	Over the estimated useful life of the asset	3 - 5 years
Buildings	Over the estimated useful life of the asset	30 - 40 years
Building Improvements	Over the estimated useful life of the asset	8 - 15 years

Repairs and maintenance that do not improve efficiency or extend economic life are charged to expense as incurred.

**(m) Intangible Assets**

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite-lived intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any, over the following terms:

Market Related Intangibles (Trade Names)	18 months
Customer Relationships	8 years
Non-Compete Agreements	4 years
Permit Application Fees	1 – 2 years

The estimated useful lives and residual values are reviewed at each year end, and any changes in estimates are accounted for prospectively. Intangible assets that have an indefinite useful life are not subject to amortization. The Company's indefinite-lived intangible assets consist of licenses, which, for valuation purposes, represent the future benefits associated with the Company's cultivation, processing, and dispensary licenses. Absent such license intangibles, the Company cannot continue as a going concern and as such, there is no foreseeable limit to the period over which these assets are expected to generate future cash inflows to the Company.

Definite-lived intangible assets are tested for impairment when there is an indication of impairment. Indefinite-lived intangible assets are tested for impairment annually or more frequently as warranted if events or changes in circumstances indicate impairment (refer to Goodwill for impairment tests). For the years ended December 31, 2018 and 2017, the Company did not recognize any impairment losses.

**(n) Investments in Associates**

The Company determines how to account for investments based on the level of control it has over the investment. If control is determined, then the investment should be consolidated. Investments in which the Company has significant influence, but no control, are considered investments in associates. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but without control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting. Interests in associates accounted for using the equity method are initially recognized at cost. The carrying value is then adjusted for the Company's share of comprehensive income (loss) and distributions from the investee. The carrying value of associates is



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assessed for impairment at each balance sheet date. Investments that the Company does not have control or significant influence over are first recognized at cost. At each reporting period, changes from the initial cost and fair value are recognized through profit and loss. The Company's investments in equity-accounted investees are classified within investments in the Consolidated Statements of Financial Position.

**(o) Goodwill**

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash-generating unit ("CGU") or CGUs which are expected to benefit from the synergies of the combination.

Goodwill is tested for impairment annually or more frequently as warranted if events or changes in circumstances indicate impairment. For the purpose of impairment testing, goodwill and indefinite-lived intangible assets have been allocated to CGUs or groups of CGUs representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite-lived intangible assets are tested for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount (the higher of the asset's fair value less costs of disposal and value-in-use); an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment loss is recognized in the Consolidated Statements of Operations and Comprehensive Income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. The Company's most recent goodwill impairment test during the fourth quarter did not result in the recognition of any impairment losses.

**(p) Income Taxes**

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

*Current Tax*

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

*Deferred Tax*

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

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**(q) Revenue Recognition**

The Company's primary source of revenue is from the sale of cannabis products. Prior to the adoption of IFRS 15, the Company recognized revenue when the following conditions are met:

- The Company has transferred the significant risks and rewards of ownership of the goods to the purchaser;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

On January 1, 2018, the Company adopted 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 judgement thresholds have been introduced which may affect the timing of revenue recognized.

The Company records revenue from contracts with customers in accordance with the five steps in IFRS 15 as follows:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price, which is the total consideration provided by the customer;
4. Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
5. Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The Company adopted IFRS 15 using the cumulative effect method as of the date of initial application on January 1, 2018, with no restatement of comparative period amounts. As the effect of adopting IFRS 15 did not have a material impact on the financial statements, there was no adjustment made to the opening balance of equity at the date of initial application.

Upon the adoption of IFRS 15, the Company recognizes revenue to wholesale customers (dispensaries) when control of the promised goods or services is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Revenue from the direct sale of cannabis to retail customers is recognized when the Company transfers control of the goods to the customer at the point of sale and the customer has paid for the goods.

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The following table represents the Company's revenue disaggregated by revenue source, primarily due to the Company's contracts with its customers, for the years ended December 31, 2018 and 2017:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Wholesale	\$ 30,723	\$ 10,982
Dispensary	<u>12,529</u>	<u>-</u>
<b>Total Revenue</b>	<b><u>\$ 43,252</u></b>	<b><u>\$ 10,982</u></b>

The Company generates revenue at the point in time the product is transferred to the customer, as the Company has a right to payment, and the customer has significant risks and rewards of such product. The Company does not engage in long-term sales contracts.

*Contract Costs*—In accordance with IFRS 15, incremental costs to obtain a contract are capitalized and amortized over the contract term if the cost are expected to be recoverable. The Company does not capitalize incremental costs to obtain a contract where the contract duration is expected to be one year or less. As of December 31, 2018, the Company does not have any costs capitalized.

**(r) Share and Unit-Based Compensation**

The Company measures equity settled share and unit-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For share and unit-based payments granted to non-employees the compensation expense is measured at the fair value of the good and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share and unit-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments.

**(s) Financial Instruments**

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments*. IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS also amends the requirements around hedge accounting, and introduces a single, forward looking expected loss impairment model. All financial assets and financial liabilities, in respect of financial instruments, are recognized on the Company's Consolidated Statements of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are incremental and are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities measured at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The classification of financial instruments dictates how these assets and liabilities are measured subsequently in the Company's consolidated financial statements.

*(i) Financial Instruments Measured at Fair Value Through Profit or Loss ("FVTPL")*

Financial instruments are classified as FVTPL when they are held for trading. A financial instrument is held for trading if it was acquired for the purpose of sale in the near term. Derivative financial instruments that are not designated and effective as hedging instruments are classified as FVTPL. Financial instruments classified as FVTPL are stated at fair value with any changes in fair value recognized in earnings for the period. Financial assets in this category include certain short-term investments and derivatives.

*(ii) Financial Assets Measured at Amortized Cost*

Financial assets measured at amortized cost are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Financial assets in this category include cash and cash equivalents, short-term investments, trade receivables, other receivables, and loans receivable.

Loans receivable primarily consist of loans to entities in which the Company has a potential future investment. These loans are measured at either FVTPL if they have derivative qualities or at amortized cost, less expected credit losses.

*(iii) Impairment of Financial Assets*

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Company recognizes expected credit losses ("ECL") for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime ECLs at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Trade receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

For financial assets carried at amortized cost, the Company recognizes loss allowances for ECLs on its financial assets measured at amortized cost. ECLs are a probability-weighted estimate of credit losses. The Company applies a three-stage approach to measure ECLs. The Company measures loss allowance at an amount equal to 12 months of expected losses for performing loans receivable if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on loans receivable that

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have experienced a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

The Company considers a significant increase in credit risk to have occurred if contractual payments are more than 30 days past due and considers the loans receivable to be in default if they are 90 days past due. A significant increase in credit risk or default may have also occurred if there are other qualitative factors (including forward looking information) to consider; such as borrower specific information (i.e. change in credit assessment).

Objective evidence of impairment of financial assets carried at amortized cost exists if the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

*(iv) Financial Liabilities Measured at Amortized Cost*

Financial liabilities measured at amortized cost are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired. Financial liabilities in this category include the contract liability, accounts payable and accrued liabilities.

*Summary of the Company's Classification and Measurements of Financial Assets and Liabilities*

	IFRS 9		IAS 39	
	Classification	Measurement	Classification	Measurement
Cash and Cash Equivalents	FVTPL	Fair Value	Loans and Receivables	Amortized Cost
Restricted Cash	Amortized Cost	Amortized Cost	Loans and Receivables	Amortized Cost
Accounts Receivable	Amortized Cost	Amortized Cost	Loans and Receivables	Amortized Cost
Loans Receivable	Amortized Cost or FVTPL	Amortized Cost or Fair Value	Loans and Receivables	Amortized Cost
Investments	FVTPL	Fair Value	N/A	N/A
Security Deposits – Related Parties	Amortized Cost	Amortized Cost	Loans and Receivables	Amortized Cost
Accounts Payable and Accrued Liabilities	Amortized Cost	Amortized Cost	Other Liabilities	Amortized Cost
Deferred Consideration and Other Payables	Amortized Cost	Amortized Cost	Other Liabilities	Amortized Cost
Derivative Liabilities and Contingent Consideration	FVTPL	Fair Value	FVTPL	Fair Value

**(t) Significant Accounting Judgments, Estimates, and Assumptions**

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 accompanying consolidated financial statements are described below.

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*(i) ECL on Loan Receivables and Trade Receivables*

The Company calculates ECLS for trade receivables based on the historical default rates over the expected life of the trade receivable and adjusts for forward-looking estimates, which is determined through the exercise of judgment. The Company calculates ECLs for loan receivables by considering cash shortfalls on a discounted basis it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring, which is determined through the exercise of judgment. The Company's ECL models rely on forward looking information and economic inputs, such as default rates, industry growth rate, licensing rules, etc. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement. The allowance the Company records, if any, is the sum of these probability weighted outcomes.

*(ii) Biological assets and inventory*

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory. In calculating the value of the biological assets and inventory, the estimates management makes includes estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and expected yields for the cannabis plants. In calculating final inventory values, management compares the inventory cost to estimated net realizable value. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged. Further information on estimates used in determining the fair value of biological assets is contained in Note 5.

*(iii) 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.

*(iv) Estimated Useful Lives and Amortization of Intangible Assets*

Amortization of intangible assets 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.

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*(v) Property and Equipment Impairment*

The Company evaluates the carrying value of long-lived assets at the end of each reporting period whether there is any indication that a long-lived asset is impaired. Such indicators include evidence of physical damage, indicators that the economic performance of asset is worse than expected, or that the decline in asset value is more than the passage of time or normal use, or significant changes occur with an adverse effect on the Company's business. If any such indication exists, Cresco estimates the recoverable amount of the asset. An asset is impaired when its carrying amount exceeds its recoverable amount. The Company measures impairment based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset. The fair value is determined primarily by using the projected future cash flows discounted at a rate commensurate with the risk involved as well as market valuations. Losses on long-lived assets to be disposed of are determined in a similar manner, except that the fair values are reduced for an estimate of the cost to dispose or abandon.

*(vi) Goodwill and Indefinite Life Intangible Asset Impairment*

Goodwill and indefinite life intangible assets are tested for impairment annually during the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of these assets has been impaired. In order to determine if the value of these assets has been impaired, the cash generating unit (CGU) to which the assets have 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, market data and discount rates. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill. The Company has determined that the goodwill associated with all acquisitions belongs to each respective entity as this is the lowest level at which management monitors goodwill (see Note 9).

*(vii) Business Combinations and Asset Acquisitions*

Determination of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business. The classification can have a significant impact on the accounting on and subsequent to the acquisition date.

a. **Business Combinations**

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date where the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS 3 *Business Combinations* provides exceptions to recording the amounts at fair value. Acquisition costs are expensed to profit or loss.

In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Management exercises judgement in estimating the probability and timing of when contingent payments are expected to be made and at what amounts, which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible

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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 these assets and any changes in the discount rate applied.

Non-controlling interest in the acquiree, if any, is recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration over the fair value of previously held equity interest prior to obtaining control, and the non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill.

b. Asset Acquisitions

Acquisitions that do not meet the definition of a business combination are accounted for as an asset acquisition. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Goodwill is not recorded as a result of an asset acquisitions.

*(viii) Control Over the Investee, Principles of Consolidation*

The Company examines three elements to determine whether control exists. When all of these three elements of control are present, then an investor is considered to control an investee and consolidation is required. When one or more of the elements is not present, an investor will not consolidate but instead be required to determine the nature of its relationship with the investee. The three elements of control that serve as the basis of consolidation include: identify the investee; understand the purpose and design of the investee; and identify the relevant activities of the investee and how decisions about these relevant activities are made. The Company exercises its judgment when determining control over an investee, in when it has all of the following attributes: power over the investee, such as the ability to direct relevant activities of the investee; exposure, or rights, to variable returns from its involvement with the investee, such as returns that are not fixed and have the potential to vary with performance of the investee; and the ability to use its power over the investee to affect the amount of the investor's returns, such as identifying the link between power and returns.

Cresco Labs Inc. through Cresco US Corp has control over Cresco LLC. Despite holding only a minority interest, the Company has the full decision-making power over Cresco Labs LLC. According to IFRS 10, *Consolidated Financial Statements*, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company has the right to direct all the relevant activities of Cresco Labs LLC and to affect its returns under the A&R LLC Agreement. The Company is also exposed to variable returns through its own shareholding in the Cresco Labs LLC. The Company also exercises judgment in applying the provisions of IFRS 10 to determine when to consolidate its acquired entities, which may occur before the related transactions have been fully funded. See Note 13 for additional information.

*(ix) Share-Based Compensation*

In calculating the share-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 share-based compensation



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expense related to key employee performance milestones associated with the terms of an acquisition, the Company must estimate the number of shares that will be earned and when they will be issued based on estimated discounted probabilities.

*(x) Income Tax*

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

**(u) Recent Accounting Pronouncements**

The following IFRS standards have been recently issued by the IASB. Pronouncements that are not applicable to the Company have been excluded herein.

*(i) IFRS 2, Share-based Payment (“IFRS 2”)*

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 introducing 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, with earlier application permitted. The amendments are to be applied prospectively. However, retrospective application is allowed if this is possible without the use of hindsight. The Company does not expect significant impact on its consolidated financial statements from the adoption of this new standard.

*(ii) IFRS 7, Financial Instruments: Disclosure (“IFRS 7”)*

IFRS 7 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. The Company added the required disclosures for financial instruments accordingly.

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(iii) *IFRS 9, Financial Instruments (“IFRS 9”)*

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 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 did not have a material impact on the Company’s consolidated financial statements.

IFRS 9 includes guidance on the classification and measurement of financial instruments and introduces a new ECL model for calculating impairment on financial assets as well as new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and FVTPL. Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

As a result of adopting this standard, certain of the Company’s financial assets previously classified in the loans and receivables category under IAS 39, specifically, the Company’s trade receivables, other receivables, and loans receivable, are now classified in the amortized cost category under IFRS 9. Additionally, the Company’s accounts payable and accrued liabilities, previously classified as other financial liabilities under IAS 39, are now classified in the amortized cost category under IFRS 9. Derivative assets and liabilities and forward contracts continue to be classified under FVTPL under IFRS 9. These new classification categories do not impact the measurement basis for the Company’s financial assets and liabilities. There were no adjustments to the carrying amounts of these financial instruments as a result of the adoption of IFRS 9.

There was also no impact on the Company’s credit risk assessments as a result of adopting IFRS 9 and the ECL model for calculating impairment on financial assets, given the nature of the Company’s financial assets, customer base, and history of incurring minimal credit losses.

(iv) *IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)*

In May 2014, the IASB replaced IAS 18, *Revenue*, in its entirety with IFRS 15, *Revenue from Contracts with Customers*, and subsequently issued Clarifications to IFRS 15. The core principle of the standard is an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is based on a five-step model to determine whether, how much and when revenue is recognized.

Under IFRS 15, revenue from the sale of cannabis is recognized at a point in time when control over the goods has been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer, which is consistent with the Company’s current revenue recognition policy under IAS 18.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company adopted IFRS 15 using the modified retrospective approach on January 1, 2018. The adoption of this new standard did not have a material impact on the Company’s consolidated financial statements.

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(v) *IFRS 16, Leases (“IFRS 16”)*

In January 2016, the IASB replaced IAS 17, *Leases*, in its entirety with IFRS 16, *Leases*. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all financing and operating leases with terms longer than 12 months, along with additional qualitative and quantitative disclosures. The Company will adopt IFRS 16 on January 1, 2019, using the modified retrospective transition method and may record a cumulative effect adjustment to beginning retained earnings without restating prior periods. The Company has several leases in place as disclosed in Note 16. On transition to IFRS 16, the Company will elect to apply the practical expedient to only transition contracts which were previously identified as leases. The Company will also elect to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company will account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

The Company expects to record between \$30,000 thousand and \$45,000 thousand of ROU assets and offsetting lease liabilities between \$35,000 thousand and \$45,000 thousand. The Company expects no material impact to retained earnings, the Consolidated Statements of Operations and Comprehensive Income or the Consolidated Statements of Cash Flows.

(vi) *IFRIC 23, Uncertainty over Income Tax Treatments (“IFRIC 23”)*

Clarifies the application of recognition and measurement requirements in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The Company is early adopting IFRIC 23 as of December 31, 2018, and the standard did not have a material impact to the financial statements.

(vii) *IAS 28, Long-term Interests (“IAS 28”)*

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 is currently assessing the impact of this standard.

### **3. REVERSE TAKEOVER TRANSACTION**

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On October 10, 2018, Randsburg and the Company announced that they had entered into a binding letter agreement to affect a transaction that will result in a reverse takeover of Randsburg by Cresco (the “Transaction”).

The Transaction will be treated for accounting purposes as an asset acquisition of Randsburg by Cresco. In consideration for the acquisition of Randsburg, the Company issued subordinate voting shares (“SVS”) of Cresco for each outstanding common share of Randsburg totaling approximately 258,205 SVS to shareholders of Randsburg.

Additionally, each Randsburg share purchase warrant which gives the holder the right to acquire shares in the common stock of Randsburg when presented for execution will be exchanged for a warrant which will give

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the holder the right to acquire SVS of Cresco on the same basis as the exchange of Randsburg common shares for Cresco SVS. These warrants were classified as derivative liabilities and measured at FVTPL. They have been included in the purchase consideration at their fair value of approximately \$146 thousand based on the Black-Scholes pricing model.

The Company accounted for the Transaction as a deemed issuance of shares for the purchase of the net nil net assets of Randsburg. A non-cash listing expense of \$1,839 thousand is based on the following: 258,205 shares measured at a fair value of \$6.54 per share (\$1,693 thousand) and 53,325 purchase warrants measured at a fair value of \$2.74 per share (\$146 thousand). As a result of the reverse takeover, the Company incurred \$1,755 thousand in transaction costs. The remaining \$1,654 thousand has been recorded in the Consolidated Statements of Operations and Comprehensive Income as a selling, general and administrative expense, at Note 14.

As part of the Transaction, unit holders of Cresco Labs, LLC exchanged their units for a new class of redeemable units in Cresco Labs, LLC. Each Redeemable unit is only exchangeable for the equivalent of one SVS in Cresco Labs Inc. (without any obligation to redeem in cash). On close of the transaction, the former unit holders of Cresco Labs, LLC controlled approximately 59% of the continuing entity through the Redeemable units. These unit holders hold an interest only in Cresco Labs, LLC; they participate in the earnings of only Cresco Labs, LLC and not the earnings of the combined entity. Therefore, in accordance with IFRS 3, *Business Combinations*, this is presented as a non-controlling interest in the reverse takeover, the value of which was recognized at its proportionate interest in the pre-combination carrying amounts of Cresco Labs, LLC. See Note 11: Share Capital for further detail.

**4. ACCOUNTS RECEIVABLE**

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As of December 31, 2018 and 2017, accounts receivable consisted of the following:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Accounts Receivable	\$ 3,678	\$ 1,031
Allowance for Doubtful Accounts	<u>(20)</u>	<u>(20)</u>
<b>Total Accounts Receivable</b>	<b><u>\$ 3,658</u></b>	<b><u>\$ 1,011</u></b>

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**5. BIOLOGICAL ASSETS**

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The Company's biological assets consist of cannabis plants. The changes in the carrying value of biological assets as of December 31, 2018 and 2017 consisted of the following:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Balance at Beginning of Period	\$ 2,637	\$ 1,148
Biological Assets Acquired <i>(Note 13)</i>	4,154	-
Transferred to Inventory Upon Harvest	(41,681)	-
Changes in Fair Value of Biological Assets	52,563	1,489
<b>Total Biological Assets</b>	<b><u>\$ 17,673</u></b>	<b><u>\$ 2,637</u></b>

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Biological assets are measured at fair value less costs to sell until harvest. All production costs related to biological assets are expensed as incurred. The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The fair value was determined using an expected cash flow model which assumes the biological assets at the balance sheet date will grow to maturity, be harvested and converted into finished goods inventory and sold in the retail and medical cannabis market. This model utilizes the following significant assumptions:

Inputs and assumptions	Calculation Method	Effect changes of unobservable inputs has on fair value:
Selling price per gram, less cost to sell	Based on observable market data or calculated wholesale prices with reasonable margins.	An increase in selling price per gram would increase the fair value of biological assets.
Attrition rate	Based on weighted average number of plants lost during each stage of production	An increase in attrition rate would result in a decrease to the fair value of biological assets.
Average yield per plant	Based on the average number of grams of dried cannabis inventory expected to be harvested from each cannabis plant.	An increase to the average yield per plant would result in an increase to the fair value of biological assets.
Cumulative stage of completion in the production process	Based on an average number of days in production over a total average grow cycle of approximately 17 weeks	An increase to the average stage of completion of the plants would result in an increase to the fair value of biological assets.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

The Company estimates the harvest yields for cannabis at various stages of growth. As of December 31, 2018 and 2017, it is expected that the Company's biological assets will yield approximately 6,506 thousand and 1,429 thousand grams, respectively.

Significant inputs & assumptions	Range of inputs	Sensitivity	Effect on Fair Value	
			(\$ in thousands)	
			2018	2017
Selling price per gram	\$2.93 to \$6.87	Increase 5%	\$ 2,759	\$ 188
		Decrease 5%	(2,759)	(188)
Average yield per plant	34.5 to 291.5 grams	Increase 5%	884	132
		Decrease 5%	(884)	(132)

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**6. INVENTORY**

As of December 31, 2018 and 2017, inventory was comprised primarily of finished goods cannabis and cannabis-related products. There were no impairments of inventory as of December 31, 2018 and 2017. Inventory as of December 31, 2018 and 2017 consisted of the following:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Raw Materials	\$ 1,639	\$ 182
Work-in-process	12,047	-
Finished Goods	<u>10,835</u>	<u>3,009</u>
<b>Total Inventory</b>	<b><u>\$ 24,521</u></b>	<b><u>\$ 3,191</u></b>

During the years ended December 31, 2018 and 2017, the Company recognized \$55,398 thousand and \$11,319 thousand, respectively, of inventory expensed to cost of goods sold, which includes \$28,218 thousand and \$10,724 thousand, respectively, of cost of goods sold of inventories and \$27,180 thousand and \$595 thousand, respectively, of non-cash expense relating to the changes in fair value of inventory sold.

**7. PROPERTY AND EQUIPMENT**

As of December 31, 2018 and 2017, property and equipment consisted of the following:

<i>(\$ in thousands)</i>	<b>Land and Buildings</b>	<b>Machinery and Equipment</b>	<b>Furniture and Fixtures</b>	<b>Leasehold Improvements</b>	<b>Computer Equipment</b>	<b>Website and Software</b>	<b>Vehicles</b>	<b>Construction In Progress</b>	<b>Total</b>
<b>Cost</b>									
Balance at December 31, 2016	\$ -	\$ 700	\$ 166	\$ 156	\$ 149	\$ 72	\$ 58	\$ 4	\$ 1,305
Additions	-	347	124	50	427	13	24	3,077	4,062
Disposals	-	-	-	-	-	(21)	-	-	(21)
Balance at December 31, 2017	\$ -	\$ 1,047	\$ 290	\$ 206	\$ 576	\$ 64	\$ 82	\$ 3,081	\$ 5,346
Additions	8,579	2,716	1,476	14,005	200	192	304	258	27,730
Transfers	391	-	-	6	-	-	-	(397)	-
Asset Acquisitions	-	-	-	-	-	-	-	1,436	1,436
Business Acquisitions	2,155	686	322	3,611	58	6	-	-	6,838
Balance at December 31, 2018	\$ 11,125	\$ 4,449	\$ 2,088	\$ 17,828	\$ 834	\$ 262	\$ 386	\$ 4,378	\$ 41,350
<b>Accumulated Depreciation</b>									
Balance at December 31, 2016	\$ -	\$ (60)	\$ (25)	\$ -	\$ (50)	\$ (25)	\$ (12)	\$ -	\$ (172)
Depreciation	-	(50)	(33)	(25)	(67)	(18)	(8)	-	(201)
Balance at December 31, 2017	\$ -	\$ (110)	\$ (58)	\$ (25)	\$ (117)	\$ (43)	\$ (20)	\$ -	\$ (373)
Depreciation	(50)	(225)	(176)	(608)	(150)	(17)	(30)	-	(1,256)
Balance at December 31, 2018	\$ (50)	\$ (335)	\$ (234)	\$ (633)	\$ (267)	\$ (60)	\$ (50)	\$ -	\$ (1,629)
<b>Net Book Value</b>									
Balance at December 31, 2018	\$ 11,075	\$ 4,114	\$ 1,854	\$ 17,195	\$ 567	\$ 202	\$ 336	\$ 4,378	\$ 39,721
Balance at December 31, 2017	\$ -	\$ 937	\$ 232	\$ 181	\$ 459	\$ 21	\$ 62	\$ 3,081	\$ 4,973

As of December 31, 2018, costs related to the construction in production facilities were capitalized in progress and not depreciated. Depreciation will commence when construction is completed, and the facility is available for its intended use.

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Depreciation of \$1,256 thousand and \$201 thousand was recorded for the years ended December 31, 2018 and 2017, respectively, of which \$234 thousand and \$34 thousand, respectively, is included in selling, general and administrative expenses, with the remainder in COGS and ending inventory. For the year ended December 31, 2018 and 2017, depreciation expense included in COGS and ending inventory consisted of the following:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Cost of Goods Sold of Inventories	\$ 940	\$ 159
Capitalized Costs Remaining in Ending Inventory	<u>82</u>	<u>8</u>
	<u>\$ 1,022</u>	<u>\$ 167</u>

**8. INVESTMENTS**

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The following is a detailed discussion of the Company's types of investments held:

**(a) Investments at Fair Value**

The Company has investments in two entities: MassRoots, Inc. ("MassRoots"), a publicly traded cannabis company, and 420 Capital Management, LLC ("420 Capital"), a cannabis investment Company. MassRoots and 420 Capital investments are accounted for at fair market value. The following is a summary of the investments held as of December 31, 2018 and 2017:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
MassRoots	\$ 12	\$ 121
420 Capital Management	<u>68</u>	<u>68</u>
Total Investments	<u>\$ 80</u>	<u>\$ 189</u>

**(b) Investment in Associates**

The Company's ownership stake in CHP Fresco, a real estate holding entity that owns indirect investments in entities that own properties used in the Company's Illinois production facilities, is approximately 13%. However, based on various qualitative factors surrounding the investment, such as representation in management of the entity and its relationship as lessee with the investee entities, the Company has determined it confers significant influence. The following is a summary of the investment held as of December 31, 2018 and 2017:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
CHP Fresco	\$ 353	\$ 801
Total Investment	<u>\$ 353</u>	<u>\$ 801</u>



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**9. INTANGIBLE ASSETS AND GOODWILL**

A reconciliation of the beginning and ending balances of intangible assets and goodwill as of December 31, 2018 consisted of the following:

<i>(\$ in thousands)</i>	<b>Customer Relationships</b>	<b>Permit Application Costs</b>	<b>Licenses</b>	<b>Other Intangibles (a)</b>	<b>Goodwill</b>	<b>Total Intangible Assets and Goodwill</b>
<b>Cost</b>						
Balance at December 31, 2016	\$ -	\$ 975	\$ -	\$ -	\$ -	\$ 975
Additions	-	590	-	-	-	590
Balance at December 31, 2017	\$ -	\$ 1,565	\$ -	\$ -	\$ -	\$ 1,565
Additions	-	781	-	1,096	-	1,877
Additions from acquisitions	5,429	43	18,047	737	51,146	75,402
Balance at December 31, 2018	\$ 5,429	\$ 2,389	\$ 18,047	\$ 1,833	\$ 51,146	\$ 78,844
<b>Accumulated amortization</b>						
Balance at December 31, 2016	\$ -	\$ (873)	\$ -	\$ -	\$ -	\$ (873)
Amortization	-	(445)	-	-	-	(445)
Balance at December 31, 2017	\$ -	\$ (1,318)	\$ -	\$ -	\$ -	\$ (1,318)
Amortization	(130)	(548)	-	(238)	-	(916)
Balance at December 31, 2018	\$ (130)	\$ (1,866)	\$ -	\$ (238)	\$ -	\$ (2,234)
<b>Net Book Value</b>						
December 31, 2018	\$ 5,299	\$ 523	\$ 18,047	\$ 1,595	\$ 51,146	\$ 76,610
December 31, 2017	\$ -	\$ 247	\$ -	\$ -	\$ -	\$ 247

(a) Other Intangibles includes market related and non-compete agreements.

Amortization of intangible assets is primarily included in depreciation and amortization in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Amortization expense of \$916 thousand and \$445 thousand was recorded for the years ended December 31, 2018 and 2017, respectively, of which \$458 thousand and \$145 thousand, respectively, is included in selling, general and administrative expenses, with the remainder in COGS and ending inventory. For the year ended December 31, 2018 and 2017, amortization expense included in COGS and ending inventory consisted of the following:

<i>(\$ in thousands)</i>	<b>2018</b>	<b>2017</b>
Cost of Goods Sold of Inventories	\$ 390	\$ 378
Capitalized Costs Remaining in Ending Inventory	68	22
	<u>\$ 458</u>	<u>\$ 400</u>

License intangible assets of \$18,047 thousand were acquired from business combinations (Note 13) and are classified as indefinite-lived intangible assets as the Company cannot continue as a going concern without such licenses.

For the purpose of impairment testing, goodwill and indefinite life intangible assets have been allocated to CGUs representing the lowest level that the assets are monitored for internal reporting purposes. CGUs are

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determined based on the smallest identifiable group of assets that generate cash inflows that are largely independent of cash inflows from other assets or group of assets. Management has determined the Company's CGUs to be Illinois (MedMar Lakeview, MedMar Rockford, PDI, Phoenix, and FloraMedex), Maryland (AFS-MD), and Arizona (AFS-AZ).

Annual impairment testing involves determining the recoverable amount of the CGU group to which goodwill is allocated and comparing this to the carrying value of the CGU groups. The measurement of the recoverable amount of the CGU groups was calculated based on the higher of the CGUs fair value less costs to sell or value in use, which are Level 3 measurements within the fair value hierarchy.

Where measurement of the recoverable amount was calculated based on fair value less costs to sell, business enterprise value multiples ranging from 2.6x to 3.0x were applied to projected revenue. This was based on revenue multiples of comparable industry peers.

The calculation of the recoverable amount based on discounting the future cash flows (value in use) was based on the following key assumptions:

- Cash flows were projected based on the Company's long-term business plan for the periods 2019 through 2023.
- Cash flows beyond 2024 were projected to grow at a perpetual growth rate, which was estimated to be 3%.
- The business plan contains forecasts based on past experience of actual operating results in conjunction with anticipated future growth opportunities. While the forecast does assume some base business expansion, largely related to synergies gained through further incorporation of recent acquisitions into the Company's infrastructure, the primary engine of growth is strategic in nature and is consistent with the projects and expectations as articulated in the Company's strategic plan.
- Discount rates applied in determining the recoverable amount of the CGU groups were ranging from approximately 12% - 19% based on the pre-tax weighted average cost of capital of each CGU group and other competitors in the industry. The values assigned to the key assumptions represent Management's assessment of future trends in the industries in which the CGU groups operate and are based on both external and internal sources and historical trend data.

An increase in the discount rate used in the analysis of 0.10% to 0.50% would result in the recoverable amount to be approximately equal to the carrying amount of the CGUs. Additionally, a decrease in projected cash flow or terminal growth rate by 0.15% to 0.75%, would result in the recoverable amount to be approximately equal to the carrying amount of the CGUs. The difference between value in use and carrying amount is relatively minimal due to the proximity of the acquisition dates for these entities and the goodwill impairment testing date of December 31, 2018.

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**10. ACCOUNTS PAYABLE AND OTHER ACCRUED EXPENSES**

As of December 31, 2018 and 2017, accounts payable and other accrued expenses were comprised of the following:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Accounts Payable	\$ 4,430	\$ 1,716
Accrued Expenses	1,262	444
Payroll Liabilities	795	79
Property Taxes Payable	390	362
Excise Taxes Payable	338	-
Tax Penalty	275	-
Licensing Fee Payable	105	37
Other	-	3
<b>Total Accounts Payable and Other Accrued Expenses</b>	<b><u>\$ 7,595</u></b>	<b><u>\$ 2,641</u></b>

**11. SHARE CAPITAL**

**(a) Authorized**

The authorized share capital of the Company is comprised of the following

**i. Unlimited Number of Subordinate Voting Shares (“SVS”)**

Holders of Subordinate Voting Shares will be entitled to notice of and to attend at any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company will have the right to vote. At each such meeting, holders of Subordinate Voting Shares will be entitled to one vote in respect of each Subordinate Voting Share held. As long as any Subordinate Voting Shares remain outstanding, the Company will not, without the consent of the holders of the Subordinate Voting Shares by separate special resolution, prejudice or interfere with any right attached to the Subordinate Voting Shares. Holders of Subordinate Voting Shares will be entitled to receive as and when declared by the directors of the Company, dividends in cash or property of the Company.

**ii. Unlimited Number of Proportionate Voting Shares (“PVS”)**

Holders of Proportionate Voting Shares will be entitled to notice of and to attend at any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company will have the right to vote. At each such meeting, holders of Proportionate Voting Shares will be entitled to one vote in respect of each Subordinate Voting Share into which such Proportionate Voting Share could ultimately then be converted, which for greater certainty, shall initially be equal to 200 votes per Proportionate Voting Share. As long as any Proportionate Voting Shares remain outstanding, the Company will not, without the consent of the holders of the Proportionate Voting Shares and Super Voting Shares by separate special resolution, prejudice or interfere with any right or special right attached to the Proportionate Voting Shares. The holder of Proportionate Voting Shares shall have the right to receive dividends, out of any cash or other assets legally available therefore, *pari passu* as to dividends and any declaration or payment of any dividend on the Subordinate Voting Shares.

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**iii. 500,000 Super Voting Shares (“MVS”)**

Holders of Super Voting Shares shall be entitled to notice of and to attend at any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company shall have the right to vote. At each such meeting holders of Super Voting Shares shall be entitled to 2,000 votes in respect of each Super Voting Share held. As long as any Super Voting Shares remain outstanding, the Company will not, without the consent of the holders of the Super Voting Shares by separate special resolution, prejudice or interfere with any right or special right attached to the Super Voting Shares.

**iv. Pre-RTO Capital Structure**

Prior to the reverse takeover transaction, the Company was authorized to have six classes of units (the “Units”), designated as Founder’s Units (“Founder’s Units”), Class A Units (“A Units”), Class B Units (“B Units”), Class C Units (“C Units”), Class D Units (“D Units”), Class E Units (“E Units”), and Class F Units (“F Units”). Under the Company’s Operating Agreement (the “Agreement”), the Founder’s Units, A Units, B Units, C Units, and E Units were identical in all respects except that C Units are non-voting. To the extent the Founder’s Units represented not less than fifteen percent of all outstanding Units, the Founder’s Units, as a class, had voting rights equal to the greater of the actual voting rights of the Founder’s Units and fifty percent plus one vote of the aggregate voting rights of the Company’s outstanding units. If the Founder’s Units represented less than fifteen percent of the outstanding Units, the Founder’s Units, A Units, B Units, and E Units would vote as a single class, with each Unit representing one vote.

D Units are issued pursuant to a Profits Interest Plan, which is defined as any profits interest award plan of the Company, as amended, modified, supplemented, or replaced from time to time. D Units are awarded to individuals at the current fair value of Company and have no voting rights.

**(b) Issued and Outstanding**

A reconciliation of the beginning and ending amounts of the issued and outstanding shares and units by company is as follows:

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		Number of Shares/Units											
<i>(In Thousands)</i>		Class A Units	Class B Units	Class C Units	Class D	Class E Units	Class F Units	Founders Units	Redeemable Units	Subordinate Voting Shares (SVS)	Super Votings Shares (MVS)	Proportionate Voting Shares (PVS)	Shares to be issued
Beginning Balance December 31, 2016		93,000	14,056	16,270	2,454	-	-	33,000	-	-	-	-	-
Issuance of Units for Cash	Note 11(b)(i)	-	-	-	-	14,007	-	-	-	-	-	-	-
Issuance of Class D Units	Note 11(b)(i)	-	-	-	1,920	-	-	-	-	-	-	-	-
Exchange of Class D Units for Class C Units	Note 11(b)(i)	-	-	375	(375)	-	-	-	-	-	-	-	-
Issuance of Class C Units	Note 11(b)(i)	-	-	125	-	-	-	-	-	-	-	-	-
Ending Balance December 31, 2017		93,000	14,056	16,770	3,999	14,007	-	33,000	-	-	-	-	-
Stock Dividend	Note 11(d)	1,400	140	-	-	-	-	-	-	-	-	-	-
Option Exercise	Note 12 Note 11(e), Note 11(b)(ii), Note 11(b)(ii)	-	-	-	189	-	-	-	-	-	-	-	-
Shares issued as compensation		-	-	250	1,273	-	-	-	-	-	-	-	-
Shares issued (investment in associate)	Note 13	-	-	-	-	114	-	-	-	-	-	-	-
Investment in Lighthouse, Nevada	Note 18	-	-	-	-	500	-	-	-	-	-	-	-
Purchase of NCI with no change in control	Note 12(f)	-	-	-	-	-	22,514	-	-	-	-	-	-
May Class F Equity Financing	Note 11(b)(ii)	-	-	-	-	-	11,851	-	-	-	-	-	-
October Class F Equity Financing	Note 11(b)(iii)	-	-	-	-	-	27,093	-	-	-	-	-	-
Converted to Pubco SVS, MVS and PVS	Note 11(b)(iv)	(2,709)	(1,270)	(16,520)	(4,576)	(11,480)	(59,635)	(122)	-	-	-	-	-
Reorganization of equity into SVS, MVS, PVS, and Redeemable units	Note 11(b)(iv)	(91,691)	(12,926)	(500)	(885)	(3,141)	(1,823)	(32,878)	143,844	8,991	500	87,168	-
Deemed issuance of shares to acquire Randsburg	Note 11(b)(iv)	-	-	-	-	-	-	-	-	259	-	-	-
Concurrent financing	Note 11(b)(v)	-	-	-	-	-	-	-	-	12,624	-	-	-
PDI Acquisition	Note 13, 18(c)	-	-	-	-	-	-	-	-	-	-	258	-
Acquisition of NCI	Note 13, 18(c)	-	-	-	-	-	-	-	-	-	-	114	-
MedMar Acquisition	Note 13	-	-	-	-	-	-	-	-	-	-	-	3,020
PVS Converted to SVS	Note 11(b)(vi)	-	-	-	-	-	-	-	-	4,837	-	(4,837)	-
Warrant Exercises	Note 11(c)	-	-	-	-	-	-	-	-	-	-	100	-
Ending Balance, December 31, 2018		-	-	-	-	-	-	-	143,844	26,711	500	82,803	3,020

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**i. 2017 Unit Issuances and Activity**

The Company issued 125,000 C Units during the year ended December 31, 2017. Additionally, during the year ended December 31, 2017, 375,000 D Units were exchanged for C Units. The C Units issued in 2017 and the C Units exchanged for D Units in 2017 were pursuant to an equity allocation agreement for C Units. Due to a clerical error in 2015 and 2016, 375,000 of these Units were issued as D Units. They were accordingly exchanged for C Units during 2017.

D Units are issued pursuant to a Profits Interest Plan, which is defined as any profits interest award plan of the Company, as amended, modified, supplemented, or replaced from time to time. D Units are awarded to individuals at the current fair value of Company and have no voting rights. During the year ended December 31, 2017 the Company issued D Units totaling 1,920,387.

During the year ended December 31, 2017, the Company raised equity under Series E. A total of 14,006,523 E units were issued for capital contributions totaling \$15,648,609. All amounts which were determined by the Board to be available for distribution were distributed as follows:

- First, distributions were made 87.5% to the A Unit holders in proportion to their respective number of A Units and 12.5% to the B Unit holders in proportion to their respective number of B Units until the Capital Contributions of the A Units had been returned to the Members holding A Units.
- Thereafter, to all Members in proportion to their respective number of Units, provided, however, that no distributions with respect to D Units would be made if such distribution causes an Adjusted Capital Account Deficit to any Class D Member.

**ii. May Private Placement Offering**

During the second quarter of 2018, the Company completed a non-brokered private placement of approximately 11,851 thousand F Units at a price of \$1.97 to \$2.25 per unit, for aggregate gross proceeds of \$23,589 thousand. Total fees recorded for the May 2018 placement offering was \$888 thousand, comprised of \$549 thousand cash and \$339 thousand non-cash. The non-cash component was in the form of 339 thousand Class D Units issued at fair value.

**iii. October Private Placement Offering**

In October 2018, the Company completed a brokered private placement of 27,093 thousand F Units at a price of \$3.75 per unit, for aggregate gross proceeds of \$101,415 thousand. Total fees recorded for the October 2018 placement offering was \$4,602 thousand, comprised of \$2,528 thousand cash and \$2,074 thousand non-cash. Of the cash costs, \$320 thousand was recorded in expense and \$2,208 thousand was netted against proceeds in equity. The non-cash component was in the form of immediate grants of 553 thousand Class D Units; the fair value of which was the per-unit price of \$3.75 of the October Private Placement Offering and is recorded as transaction costs in the Statement of Shareholder's Equity.

**iv. Share Reorganization for RTO and Deemed Share Issuance**

In conjunction with its RTO effected on November 30, 2018, the Company reorganized its existing classes of units (A Units, B Units, C Units, D Units, E Units, F Units, and Founders Units) and converted such units into either Redeemable LLC Units, SVS, PVS, or MVS. On an as-converted basis, previous holders of Cresco Labs, LLC units exchanged them for 96,659 thousand shares in Cresco. After share reorganization there remained a total of 143,843 thousand Redeemable LLC Units

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in Cresco Labs, LLC. Additionally, the Company granted 259 thousand SVS and 54 thousand warrants to previous holders of Randsburg warrants to effect the RTO with Randsburg. See Note 3 for additional information.

**v. *November Subscription Receipt Offering***

Pursuant to an agency agreement dated as of November 26, 2018 (the "Agency Agreement") between Cresco LLC and various pre-RTO related entities, Randsburg and their agents, Cresco Acquisition completed a private placement of 12,624,054 Subscription Receipts (the "SR Offering") at a price of C\$8.50 per Subscription Receipt for aggregate gross proceeds of approximately \$80,642 thousand.

Each Subscription Receipt was automatically converted into one Cresco Acquisition Share immediately prior to and in connection with the completion of the Transaction, without payment of additional consideration or further action on the part of the holder. Upon completion of the Business Combination each Cresco Acquisition Share was converted into one Subordinate Voting Share, without payment of additional consideration or further action on the part of the holder.

Total fees recorded for the November 2018 placement offering was \$6,093 thousand, comprised of \$4,998 thousand in cash costs and broker warrants with a value of \$1,095 thousand which were netted against proceeds in equity. See Note 11(c) for information about valuation of broker warrants.

The Agents' fee in connection with the SR Offering was (i) a cash commission equal to 6% of the gross proceeds from the SR Offering; (ii) a financial advisory fee for the non-brokered portion of the SR Offering equal to 1% of the gross proceeds from the sale of Subscription Receipts, up to a maximum of \$7,500 thousand; and (iii) a financial advisory fee for the non-brokered portion of the SR Offering equal to 6% of the gross proceeds from the sale of the Subscription Receipts, above \$7,500 thousand, for a total of C\$5,932 thousand (the "Agent Fee") plus reimbursements for the Agents' expenses in connection with the SR Offering (including legal fees, disbursements and applicable taxes) in the amount of C\$507 thousand. Fifty percent (50%) of the Agent Fee was paid on November 26, 2018 and the remaining in fifty percent (50%) was held in escrow by the Escrow Agent pending the closing of the Reverse Takeover. The funds were settled upon completion of the Reverse Takeover.

In addition, the Agents' received 343,745 broker warrants which is equal to 3% of the number of Subscription Receipts sold pursuant to the SR Offering (the "Broker Warrants"), excluding the non-brokered portion. Each Broker Warrant will be exercisable at any time prior to the date that is 24 months following the completion of the Business Combination (which occurred on November 30, 2018) to acquire one SVS of the Company at the issue price for the Subscription Receipts.

**vi. *Conversions from Proportionate to Subordinate Voting Shares***

During the year ended December 31, 2018 and subsequent to the RTO, each PVS was exchanged for 200 SVS. A total of 24 thousand PVS were exchanged for 4,838 thousand SVS.

In conjunction with the RTO, the Company converted 122,352 Founders Units and 30,588 Class A units into MVS.

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(c) **Stock Purchase Warrants**

Each whole warrant entitles the holder to purchase one Subordinate Voting Share of the Company. A summary of the status of the warrants outstanding is as follows:

	<b>Number of Warrants</b>	<b>Weighted- Average Exercise Price</b>
Balance as of December 31, 2017	100,000	\$1.00
Issued	397,079	6.29
Exercised	<u>(100,000)</u>	1.00
Balance as of December 31, 2018	<u><u>397,079</u></u>	5.35

During the year ended December 31, 2018, the Company recorded warrant expense of \$1,241 thousand, of which \$1,095 thousand was capitalized to equity as share issuance cost related to services rendered by brokers during the November subscription receipt offering and \$146 thousand was recorded in consolidated statement of comprehensive income. Certain of these warrants were exercised during the year ended December 31, 2018. The share price on the exercise dates ranged from \$5.00 to \$5.23.

The fair value of warrants issued was determined using the Black-Scholes option-pricing model with the following assumptions at the time of issuance:

	<b><u>2018</u></b>
Risk-free Annual Interest Rate	1.25% to 2.33%
Expected Annual Dividend Yield	0%
Expected Stock Price Volatility	65% to 90%
Expected Life of Stock Options	1 to 2 years
Forfeiture Rate	0%
Share Price on Grant Date	\$6.54

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies.

Changes in the assumptions above did not have a significant impact on the fair value of the warrants at December 31, 2018.



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**(d) Stock Dividend**

On July 13, 2018 the Company offered a dividend distribution of Class A and Class B Units in proportion to the total units outstanding of each individual class for a total of 1,540 thousand units at a fair value of \$2.25/unit.

**(e) Shares Issued as Compensation**

During the year ended December 31, 2018, the Company issued certain shares noted in the above table as compensation, pursuant to an equity allocation agreement, in exchange for services received and financing fees.

**(f) Changes in Ownership and Non-controlling Interests**

In 2018, the Company acquired the remaining 69% of Cresco Yeltrah, LLC interest. The consideration paid was 11,330 thousand F units which can be converted into publicly traded Cresco Labs, Inc shares. This resulted in a \$26,134 thousand increase to share capital, and a decrease to contributed surplus of \$12,626 thousand after the reclassification of the non-controlling interest carrying balance.

In 2018, the Company acquired 67% of Cresco Labs Ohio, LLC decreasing non-controlling interest from 68% to 1%. The consideration paid was 7,791 thousand F Units which could be converted into publicly traded Cresco Labs, Inc shares. This resulted in a \$17,529 thousand increase to share capital, and a decrease to contributed surplus of \$7,239 thousand after the reclassification of the non-controlling interest carrying balance. The balance remaining at December 31, 2018 is \$212 thousand and is recorded in non-controlling interest on the consolidated statement of financial position.

In September 2018, the Company acquired an additional 20% of SLO Cultivation, Inc. decreasing non-controlling interest from 40% to 20%. The consideration paid was 2,267 thousand F Units which could be converted into publicly traded Cresco Labs, Inc shares. This resulted in a \$8,500 thousand increase to share capital, and a decrease to contributed surplus of \$8,606 thousand after the reclassification of the non-controlling interest carrying balance. The balance remaining at December 31, 2018 is \$119 thousand and is recorded in non-controlling interest on the consolidated statement of financial position.

In June 2018, the Company acquired an additional 25% of Phoenix Farms of Illinois, LLC decreasing non-controlling interest from 36% to 11%. The consideration paid was 439 thousand F Units which could be converted into publicly traded Cresco Labs, Inc shares. This resulted in a \$987 thousand increase to share capital, and a decrease to contributed surplus of \$194 thousand after the reclassification of the non-controlling interest carrying balance. The balance remaining at December 31, 2018 is \$379 thousand and is recorded in non-controlling interest on the consolidated statement of financial position.

In October 2018, the Company acquired the remaining 6% of Cresco IL, LLC. The consideration paid 800 thousand Class F Units which could be converted into publicly traded Cresco Labs, Inc shares. This resulted in a \$3,000 thousand increase to share capital, and a decrease to contributed surplus of \$2,412 thousand after the reclassification of the non-controlling interest carrying balance.

In December 2018, the Company transferred 59% ownership of Cresco Labs, LLC to shareholders in relation to the reverse takeover acquisition of Randsburg (see Note 3). This resulted in a \$155,746 thousand increase to non-controlling interest. The balance remaining at December 31, 2018 is \$155,826 thousand and is recorded in non-controlling interest on the consolidated statement of financial position.

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The total effect of the above transactions on contributed surplus was a reduction of \$31,430 thousand, which has been presented as a reduction to accumulated deficit on the consolidated statement of changes in shareholder's equity.

As of December 31, 2018, non-controlling interest included the following amounts before intercompany eliminations:

\$ Amount (in thousands)								
December 31, 2018	TSC Cresco, LLC	Cresco Labs Phoenix Farms, LLC	MedMar Inc. (Lakeview)	MedMar Inc. (Rockford)	Cresco Labs Ohio, LLC	SLO Cultivation Inc.	Other Entities, including Cresco Labs, LLC*	Total
Non-Current Assets	39	3,468	19,405	16,922	10,493	2,036	73,044	125,407
Current Assets	599	631	280	358	2,728	5,355	182,753	192,704
Non-Current Liabilities	(11)	-	(143)	(202)	(10)	(653)	(8,881)	(9,900)
Current Liabilities	(105)	-	(420)	(525)	(108)	(977)	(23,095)	(25,230)
<b>Net Assets</b>	<b>522</b>	<b>4,099</b>	<b>19,122</b>	<b>16,553</b>	<b>13,103</b>	<b>5,761</b>	<b>223,821</b>	<b>282,981</b>
Net Assets Attributable to NCI	5	1,025	2,390	4,138	2,359	1,152	127,354	161,951
Revenue	2,439	1,733	273	397	-	690	37,720	43,252
Profit	669	307	(45)	(74)	278	444	38,838	40,417
<b>Total Comprehensive Income</b>	<b>669</b>	<b>307</b>	<b>(45)</b>	<b>(74)</b>	<b>278</b>	<b>444</b>	<b>1,514</b>	<b>3,093</b>
Comprehensive Income/(Loss) Allocated to NCI	167	307	(7)	(14)	(206)	225	4,536	5,008
NCI Percentage at December 31, 2018	25.0%*	10.5%*	25.0%*	12.5%*	1.0%*	20.0%*	56.9%	

\* The NCI percentage reflects the NCI that exists at Cresco Labs, LLC. There is a further 56.9% NCI related to NCI for Cresco Labs, Inc.

During 2018, the Company acquired additional ownership interests in the above subsidiaries, without resulting in change of control, as indicated above. All ownership interests were acquired by the issuance of Class F units, which were valued between \$2.25 and \$3.75 per unit. This resulted in the following increase in the equity attributable to owners of the Company:

<i>(\$ in thousands)</i>	
Carrying amount of NCI acquired	24,720
Consideration paid to NCI	(56,150)
Decrease in equity attributable to owners of the Company	<u>(31,430)</u>

Cash flows from NCI contributions of \$5,280 thousand were proportionate contributions with no dilutive effect.

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**12. SHARE-BASED COMPENSATION**

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The Company has a share-based compensation plan (the “Plan”) for key employees and service providers. Under the Plan, shares issued have no voting rights and vest proportionately over periods ranging from six months to four years from the issuance date.

A summary of the status of the options outstanding consisted of the following:

	<b>Number of Stock Options outstanding</b>	<b>Weighted- Average Exercise Price</b>
Outstanding - December 31, 2016	2,105,000	\$ 0.90
Granted	1,395,000	1.03
Forfeited	(50,000)	1.00
Outstanding - December 31, 2017	3,450,000	0.98
Granted	16,540,000	2.32
Exercised	(189,247)	0.83
Forfeited	(300,753)	0.94
Outstanding - December 31, 2018	<u>19,500,000</u>	<u>\$ 2.11</u>
Exercisable - December 31, 2018	<u>5,094,920</u>	<u>\$ 0.94</u>

Weighted average stock price on date of exercise was \$2.15. The Company recorded compensation expense in the amount of \$10,464 thousand and \$1 thousand for the years ended December 31, 2018 and 2017, respectively, of which \$10,132 thousand and \$1 thousand, respectively, is included in selling, general and administrative expenses, with the remainder in COGS and ending inventory. Unrecognized compensation expense as of December 31, 2018 is \$16,331 thousand. For the year ended December 31, 2018 and 2017, compensation expense included in COGS and ending inventory consisted of the following:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Cost of Goods Sold of Inventories	\$ 290	\$ -
Capitalized Costs Remaining in Ending Inventory	<u>42</u>	<u>-</u>
	<u>\$ 332</u>	<u>\$ -</u>

The fair value of stock options granted was determined using the Black-Scholes option-pricing model with the following range of assumptions at the time of the grant:

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	<u>2018</u>	<u>2017</u>
Risk-free Annual Interest Rate	2.53% to 2.77%	2.20%
Expected Annual Dividend Yield	0%	0%
Expected Stock Price Volatility	49% to 99%	40%
Expected Life of Stock Options	2.5 to 7 years	5 years
Forfeiture Rate	0%	0%
Fair Value at Grant Date	\$0.00 to \$3.71	\$0.12
Stock Price at Grant Date	\$1.14 to \$6.75	\$1.00 to \$1.14
Exercise Price Range	\$1.14 to \$6.50	\$0.50 to \$1.14

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded companies. The expected life in years represents the period of time that options issued are expected to be outstanding. The risk-free rate is based on U.S. treasury bills with a remaining term equal to the expected life of the options.

During the years ended December 31, 2018 and 2017, the weighted-average fair value of stock options granted was \$1.39 and \$0.12 per option, respectively. As of December 31, 2018, stock options outstanding have a weighted-average remaining contractual life of 8.9 years.

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**13. ACQUISITIONS AND MERGERS**

**(a) Business Combinations**

The table below summarizes business combinations as of December 31, 2018:

<b>Completed during the year ended December 31, 2018</b>	<b>AFS (i)</b>	<b>FloraMedex (ii)</b>	<b>MedMar (iii)</b>	<b>PDI (iv)</b>	<b>Phoenix (v)</b>	<b>Total</b>
<i>(\$ in thousands)</i>						
<b>Total consideration</b>						
Cash	\$ -	\$10,000	\$ -	\$ -	\$2,641	\$12,641
Deferred Cash Consideration	23,600	-	7,231	-	-	30,831
Common Shares Issued	-	-	19,498	-	-	19,498
Derivative Liability for Deferred Consideration	2,018	-	-	6,257	-	8,275
Contingent Consideration	-	-	3,796	294	-	4,090
	<b>\$25,618</b>	<b>\$10,000</b>	<b>\$30,525</b>	<b>\$6,551</b>	<b>\$2,641</b>	<b>\$75,335</b>
<b>Net identifiable assets (liabilities) acquired</b>						
Cash	\$146	\$60	\$192	\$315	\$244	\$957
Accounts Receivable	135	6	-	-	18	159
Inventory	1,641	117	553	217	89	2,617
Biological Assets	4,154	-	-	-	-	4,154
Other Current Assets	91	-	4	-	1	96
Property & Equipment	3,388	1,495	1,208	475	272	6,838
Other Non-Current Assets	42	-	46	32	-	120
Customer Relationships	880	420	2,760	940	429	5,429
Market Related Intangible	270	70	250	110	37	737
License	5,897	2,103	6,518	2,503	1,026	18,047
<b>Total Identifiable Assets Acquired</b>	<b>\$16,644</b>	<b>\$4,271</b>	<b>\$11,531</b>	<b>\$4,592</b>	<b>\$2,116</b>	<b>\$39,154</b>
<b>Short-Term Liabilities</b>						
Notes Payable	\$(744)	\$(69)	\$(996)	\$(11)	\$(180)	\$(2,000)
Derivative Liability	-	-	(345)	-	-	(345)
Deferred Tax Liability	-	-	-	(178)	-	(178)
Deferred Tax Liability	(2,424)	-	-	-	-	(2,424)
<b>Net Identifiable Assets Acquired</b>	<b>\$13,476</b>	<b>\$4,202</b>	<b>\$10,190</b>	<b>\$4,403</b>	<b>\$1,936</b>	<b>\$34,207</b>
<b>Purchase price allocation</b>						
Net identifiable assets acquired	\$13,476	\$4,202	\$10,190	\$4,403	\$1,936	\$34,207
Fair value of previously held interest	-	-	-	(3,641)	-	(3,641)
Non-controlling interest	-	-	(5,269)	-	(1,108)	(6,377)
Goodwill	12,142	5,798	25,604	5,789	1,813	51,146
<b>Total Consideration</b>	<b>\$25,618</b>	<b>\$10,000</b>	<b>\$30,525</b>	<b>\$6,551</b>	<b>\$2,641</b>	<b>\$75,335</b>
Non-controlling interest at acquisition (%)	0%	0%	18%	2%	35%	
<b>Net cash outflows</b>						
Cash consideration paid	\$25,300	\$10,000	\$-	\$94	\$2,641	\$38,035
Cash acquired	(146)	(60)	(192)	(315)	(244)	(957)
<b>Total</b>	<b>\$25,154</b>	<b>\$9,940</b>	<b>\$(192)</b>	<b>\$(221)</b>	<b>\$2,397</b>	<b>\$37,078</b>

No goodwill for any acquisition is expected to be deductible for tax purposes. Additionally, per IFRS 3, the Company will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date

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and, if known, would have affected the measurement of the amounts recognized as of the acquisition date. During the measurement period, the Company will also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of the acquisition date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date. The purchase price allocation for all deals is substantially complete, with the exception of certain income tax amounts for these acquisitions. All purchase accounting is expected to be completed within twelve months from each respective acquisition date.

The following table summarizes, on a pro forma basis, the combined results of the acquired entities as though the following acquisition had occurred as of January 1, 2018. These pro forma results are not necessarily indicative of either the actual consolidated results had the acquisitions occurred as of January 1, 2018 or of the future consolidated operating results. Pro forma results are (in thousands):

<i>(\$ in thousands)</i>	<u>AFS</u>	<u>FloraMedex</u>	<u>MedMar</u>	<u>PDI</u>	<u>Phoenix</u>	<u>Total</u>
Revenue	\$11,402	\$1,468	\$6,282	\$2,931	\$1,853	\$23,936
Net Income (Loss)	\$918	\$(233)	\$1,045	\$593	\$330	\$2,653

Total Company pro forma revenue and net income for the year ended December 31, 2018 would have been \$62,504 thousand and \$5,096 thousand, respectively.

(i) Arizona Facilities Supply, LLC ("AFS")

On October 24, 2018, Cresco Labs, LLC acquired AFS via certain agreements giving it de facto control before consideration was settled, to enter the Arizona and Maryland markets. AFS, through its subsidiaries ("AFS-AZ"), holds a vertical license to cultivate, process and dispense medical marijuana in the State of Arizona, operates a medical marijuana dispensary in Phoenix, Arizona and owns real property used for cultivation in Salome, Arizona. The legal closing and cash funding for AFS-AZ occurred on November 14, 2018. AFS Maryland ("AFS-MD"), a wholly owned subsidiary of AFS, operates with a license to process medical cannabis in Maryland. In December 2018, the cash was funded for the acquisition of AFS-MD.

Cresco Labs, LLC acquired all of the issued and outstanding shares of AFS-AZ and AFS-MD for \$25,300 thousand in cash consideration. Of this amount, \$22,300 thousand was allocated to AFS-AZ and \$3,000 thousand was allocated to AFS-MD. Refer to the table above for detailed information about the purchase price allocation.

A consulting services agreement was signed which entitled the Company to 100% of profit and gives the Company control of AFS-MD and rights and exposure to variable returns. Due to provisions contained in certain agreements related to the acquisition, the Company has the full decision-making power over AFS-AZ and AFS-MD. According to IFRS 10.6, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company has the right to direct all the relevant activities of AFS-AZ and AFS-MD and is exposed to variable returns through the agreements effecting the acquisition before the funding of the acquisition.

For the year ended December 31, 2018, AFS accounted for approximately \$1,315 thousand in contributed net income. This amount included revenues of approximately \$1,226 thousand.

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(ii) FloraMedex, LLC ("FloraMedex")

On November 21, 2018, Cresco Labs, LLC acquired FloraMedex to expand its retail footprint in the Illinois market. FloraMedex operates a medical cannabis dispensary in the Chicago area suburb of Elmwood Park, IL.

Cresco Labs, LLC acquired all of the issued and outstanding shares of FloraMedex for \$10,000 thousand in cash consideration. Refer to the table above for detailed information about the purchase price allocation.

For the year ended December 31, 2018, FloraMedex accounted for approximately \$22 thousand in contributed net income. This amount included revenues of approximately \$152 thousand.

(iii) MedMar Inc., MedMar Lakeview, LLC, and MedMar Rockford, LLC (collectively, "MedMar")

On November 26, 2018, Cresco Labs, LLC acquired MedMar to expand its retail footprint in the Illinois market. MedMar operates two medical cannabis dispensaries in the Chicago's Wrigleyville neighborhood and the northern Illinois city of Rockford.

Cresco Labs, LLC acquired 87.5% and 75.0% of the issued and outstanding units of MedMar Lakeview and MedMar Rockford, respectively, for aggregate consideration of \$30,525 thousand, comprised of \$7,231 thousand cash, \$19,498 thousand equity, and \$3,796 thousand contingent consideration. Certain agreements were executed giving the Company de facto control before cash and share consideration was settled. The equity consideration is comprised of 3,020 thousand Cresco F Units convertible to publicly traded shares to be issued to the sellers, valued at the Company's RTO price of \$6.54. The contingent consideration consists of two components. The first provides for a \$1,000 thousand cash payment to the sellers of MedMar for each additional dispensary license that MedMar obtains in the 30 months following the acquisition, not to exceed an aggregate \$2,000 thousand. The fair value of this component was \$1,096 thousand as of the acquisition date; without discounting, the amount is \$1,434 thousand. The discount rate used in the valuation was 10.8%. The second component provides for the Company to reimburse the sellers for certain income tax payments. The first component relates to transfer tax, for maximum contingent consideration of \$2,000 thousand, which was recorded by the Company in its entirety. The second component relates to certain tax distributions to owners of a maximum of \$900 thousand, of which the Company has recorded \$700 thousand. This amount has been recorded as contingent consideration of \$2,000 thousand and deferred consideration and other payables of \$700 thousand. Of the total purchase consideration, \$17,135 thousand was allocated to MedMar Lakeview and \$13,390 thousand was allocated to MedMar Rockford. Refer to the table above for detailed information about the purchase price allocation.

Although the MedMar cash and share consideration was not yet funded as of the acquisition date or as of December 31, 2018, due to provisions contained in certain agreements related to the acquisition, the Company has the full decision-making power over both MedMar Lakeview and MedMar Rockford. According to IFRS 10.6, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company has the right to direct all the relevant activities of MedMar Lakeview and MedMar Rockford and is exposed to variable returns through the agreements effecting the acquisition before the funding of the acquisition. Regulatory approval and funding have since occurred. See Note 23 for additional information.

For the year ended December 31, 2018, MedMar accounted for approximately \$119 thousand in contributed net loss. This amount included revenues of approximately \$670 thousand.

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Non-controlling interest of \$5,269 thousand has been recognized at fair value. Fair value was determined based on the NCI's share of the total enterprise value imputed based on the purchase consideration, minus a 21% discount for non-controlling interest.

(iv) Tinad, LLC (dba "PDI")

Via a purchase agreement signed in April 2018, Cresco Labs, LLC acquired a 35% stake in PDI in September 2018 in exchange for \$901 thousand in cash consideration and 114 thousand F Units to expand its retail footprint in the Illinois market. PDI operates a medical cannabis dispensary in the Chicago area suburb of Buffalo Grove, IL. This investment was accounted for using the equity method.

On October 1, 2018, Cresco Labs, LLC acquired an additional 63% investment and controlling interest in PDI via certain agreements giving it de facto control before cash and share consideration was settled. As of October 1, 2018, the investment had a carrying value of \$1,001 thousand and a fair value of \$3,641 thousand. Accordingly, a gain of \$2,640 thousand was recorded in Other Income (Expense), Net. The sellers could elect to receive their purchase consideration in either cash or shares as a later date. This share consideration was measured based on 80% of the expected RTO share price. Due to number of shares being variable at the acquisition date, a derivative liability with a fair value of \$6,257 thousand was recorded as the purchase consideration. During the fourth quarter of 2018, the amount of cash and shares for the acquisition of PDI became fixed. The Company issued 258 thousand shares in December 2018. Refer to Note 18 – Financial Instruments for more information on the fair value measurement. Refer to the table above for detailed information about the purchase price allocation.

Although the PDI cash and share consideration was not yet funded as of the acquisition date and cash consideration was not yet funded as of December 31, 2018, due to provisions contained in certain agreements related to the acquisition, the Company has the full decision-making power over PDI. According to IFRS 10.6, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company has the right to direct all the relevant activities of PDI and is exposed to variable returns through the agreements effecting the acquisition before the funding of the acquisition. Regulatory approval and funding have since occurred. See Note 23 for additional information.

For the year ended December 31, 2018, PDI accounted for approximately \$56 thousand in contributed net loss. This amount included revenues of approximately \$917 thousand.

(v) Phoenix Farms Illinois, LLC ("Phoenix")

On January 19, 2018, Cresco Labs, LLC acquired Phoenix to expand its retail footprint in the Illinois market. Phoenix operates a medical cannabis dispensary in the central Illinois city of Champaign, near the University of Illinois at Urbana-Champaign.

Cresco Labs, LLC acquired 65.2% of the issued and outstanding units of Phoenix for \$2,641 thousand of cash consideration. Refer to the table above for detailed information about the purchase price allocation.

For the year ended December 31, 2018, Phoenix accounted for approximately \$307 thousand in contributed net income. This amount included revenues of approximately \$1,733 thousand.

Non-controlling interest of \$1,108 thousand has been recognized at fair value. Fair value was determined based on the NCI's share of the total enterprise value imputed based on the purchase consideration, minus a 21% discount for non-controlling interest.



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**(b) Asset Acquisitions**

<b>Completed during the year ended December 31, 2018</b>	SLO (i)		SPC (ii)		Total
<i>(\$ in thousands)</i>					
<b>Total consideration</b>	\$	1,500	\$	1,436	\$ 2,936
Deferred cash consideration	\$	1,500	\$	-	\$ 1,500
Cash paid	\$	-	\$	1,436	\$ 1,436
<b>Identifiable assets acquired</b>					
Inventory	\$	404	\$	-	\$ 404
Property & Equipment	\$	-	\$	1,436	\$ 1,436
Intangible Assets	\$	1,096	\$	-	\$ 1,096
<b>Total Assets Acquired</b>	\$	1,500	\$	1,436	\$ 2,936

**(i) SLO Cultivation Inc. ("SLO")**

On June 7, 2018 Cresco Labs, LLC acquired a 60% of the issued and outstanding units of SLO, a marijuana cultivation facility in operation in the cities of Carpinteria (Santa Barbara County) and San Luis Obispo (San Luis Obispo County) California, for consideration of \$1,500 thousand. On September 27, 2018, Cresco acquired an additional 20% of the issued and outstanding units of SLO for an equity consideration of \$8,500 thousand to bring the total ownership to 80% which is included in the Non-controlling Interests Adjustment for Change in Ownership line in the statement of change in equity. At the time of purchase, SLO had no operational business processes as the previous license was to be superseded under new state regulations. Therefore, the Company accounted for this transaction as an asset acquisition. Refer to the table above for detailed information about the purchase price allocation.

**(ii) Strategic Property Concepts, LLC ("SPC")**

On November 21, 2018, Cresco Labs, LLC acquired SPC to enter the Ohio market. SPC is a real estate holding entity that owns three properties being developed for retail cannabis operations. Cresco Labs, LLC acquired 100% of the issued and outstanding units of SPC for \$1,436 thousand of cash consideration, allocated to a single asset class, real estate.

**(c) Deferred Consideration and Other Payables**

The table below summarizes the Company's deferred consideration and other payables balance as of December 31, 2018:

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*(\$ in thousands)*

MedMar Deferred Consideration	\$	7,231
PDI Deferred Consideration		4,803
SLO Deferred Consideration		1,500
MedMar Contingent Tax Consideration Liability - Current		700
MedMar Notes Payable		345
PDI Contingent Tax Consideration Liability - Current		<u>294</u>
<b>Total</b>	<b>\$</b>	<b><u>14,873</u></b>

**(d) Contingent Consideration**

The table below summarizes the Company's contingent consideration liability balance as of December 31, 2018:

*(\$ in thousands)*

MedMar Contingent Consideration Liability for Tax Payments - Non-Current	\$	2,000
MedMar Contingent Consideration Liability		<u>1,096</u>
<b>Total</b>	<b>\$</b>	<b><u>3,096</u></b>

**14. SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES**

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For the year ended December 31, 2018 and 2017, selling, general and administrative expenses consisted of the following:

*(\$ in thousands)*

	<u>2018</u>	<u>2017</u>
Salaries and Related	\$ 7,052	\$ 1,465
Share Based Compensation	10,132	-
Consulting and Professional Fees	4,404	1,049
Advertising and Marketing	2,048	455
Excise Taxes	1,918	672
Listing Expense	1,839	-
Reverse Takeover Transaction Costs	1,654	-
Travel and Entertainment	1,117	256
Office	978	147
Rent	582	160
Other	<u>3,056</u>	<u>1,037</u>
<b>Total</b>	<b>\$ <u>34,780</u></b>	<b>\$ <u>5,241</u></b>

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**15. OTHER INCOME, NET**

For the years ended December 31, 2018 and 2017, other income, net consisted of the following:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Gain on Revaluation of Previously Held Equity Investment	\$ 2,640	\$ -
Gain/(Loss) on Derivative Instruments	861	-
Distribution Income	125	78
Realized Foreign Currency Exchange (Loss)/Gain	(763)	-
Unrealized (Loss)/Gain on Investments Held at Fair Value	(109)	27
Other	<u>27</u>	<u>(11)</u>
<b>Total</b>	<b>\$ <u>2,781</u></b>	<b>\$ <u>94</u></b>

**16. COMMITMENTS AND CONTINGENCIES**

**(a) Office and Operating Leases**

The Company leases its Chicago headquarters and certain cultivation and dispensary facilities from third parties, and affiliated entities under operating lease agreements that specify minimum rentals. The leases expire through 2031 and contain certain renewal provisions. Rent expense of \$5,062 thousand and \$4,477 thousand was recorded for the years ended December 31, 2018 and 2017, respectively, of which \$5,082 thousand and \$160 thousand, respectively, is included selling, general and administrative expenses, with the remainder in COGS and ending inventory. For the year ended December 31, 2018 and 2017, rent expense included in COGS and ending inventory consisted of the following:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Cost of Goods Sold of Inventories	\$ 4,140	\$ 4,111
Capitalized Costs Remaining in Ending Inventory	<u>340</u>	<u>206</u>
	<b>\$ <u>4,480</u></b>	<b>\$ <u>4,317</u></b>

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

<i>(\$ in thousands)</i>	<u>As of December 31, 2018</u>	<u>Scheduled Payments</u>
	2019	\$ 6,572
	2020	5,149
	2021	5,011
	2022	5,153
	2023	4,982
	Thereafter	<u>33,584</u>
	<b>Total Future Minimum Lease Payments</b>	<b>\$ <u>60,451</u></b>

**(b) Claims and Litigation**

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of December 31, 2018, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations.

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There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

**(c) Contingencies**

The Company's operations are subject to a variety of local and state regulation. 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 ceasing operations. While management believes that the Company is in compliance with applicable local and state regulation as of December 31, 2018, medical marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties or restrictions in the future.

**17. RELATED PARTY TRANSACTIONS**

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**(a) Transactions with associates**

The Company's ownership stake in CHP Fresco, a real estate holding entity that owns indirect investments in entities that own properties used in the Company's Illinois production facilities, is approximately 13%. However, based on various qualitative factors surrounding the investment, such as representation in management of the entity and its relationship as lessee with the investee entities, the Company has determined it confers significant influence.

During the years ended December 31, 2018 and 2017 respectively, the Company received \$125 thousand and \$78 thousand in distribution income related to this investment.

**(b) Compensation of key management personnel**

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors.

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Management Compensation	\$ 2,257	\$ 586
Sponsor Fees*	2,769	1,835
Share-based Payments**	14,774	36
<b>Total</b>	<b><u>\$ 19,800</u></b>	<b><u>\$ 2,457</u></b>

\*Includes financing fees affiliated with share capital raises

\*\*Share-based payments are the fair value of options granted and vested to key management personnel and directors of the Company under the Company's stock option plan.

**(c) Related Party Payables**

The Company's 2017 related party payables are comprised of \$725 thousand in received subscriptions for expansion in to the Pennsylvania medical cannabis market, and \$328 thousand in outstanding Promissory Notes due to the Company's founders. These balances were remitted in full during 2018.

**(d) Security Deposits – Related Parties**

The Company is responsible for real estate taxes and 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

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of the security deposit paid to the affiliate was approximately \$1,363 thousand and \$1,342 thousand as of December 31, 2018 and 2017, respectively.

(e) **Related Party Distributions**

During 2018, the Company distributed 968 thousand Class A Units to related parties pursuant to a return of capital unit distribution plan.

**18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

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**Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivables, due from related parties, accounts payables and other accrued expenses, subscription deposits refundable, due to related party, and notes payable – related parties. These instruments are held at amortized cost (adjusted for impairments or expected credit losses, as applicable). The carrying values of these financial instruments approximate their fair values as of December 31, 2018 and 2017 due to their nature and relatively short maturity date. Financial assets and liabilities with embedded derivative features are carried at FVTPL.

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 December 31, 2018:

<i>(\$ in thousands)</i>	<u><b>2018</b></u>
<b>Financial Assets:</b>	
Cash and Cash Equivalents	\$ 131,302
Restricted Cash	\$ 6,726
Accounts Receivable	\$ 3,658
Loans Receivable, Short-Term	\$ 7,726
Loans Receivable, Long-Term	\$ 7,280
Security Deposits – Related Parties	\$ 1,363
<b>Financial Liabilities:</b>	
Accounts Payable and Other Accrued Expenses	\$ 7,595
Deferred Consideration and Other Payables	\$ 14,873
Derivative Liability	\$ 178
Contingent Consideration	\$ 3,096
Derivative Liabilities – Long Term	\$ 146

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

<i>(\$ in thousands)</i>	<u>2017</u>
<b>Financial Assets:</b>	
Cash and Cash Equivalents	\$ 27,043
Accounts Receivable	\$ 1,011
Security Deposits – Related Parties	\$ 1,342
<b>Financial Liabilities:</b>	
Accounts Payable and Other Accrued Expenses	\$ 2,641
Subscription Deposits Refundable	\$ 400
Related Party Payables and Notes	\$ 1,053

**(a) Short-Term Loans Receivable**

The following is a summary of short-term loans receivable balances and IFRS 9 classifications (discussed further below) as of December 31, 2018:

<i>(\$ in thousands)</i>	<u>IFRS 9 Classification</u>	<u>2018</u>
Short-Term Loans Receivable – Lighthouse (i)	FVTPL	\$ 6,648
Short-Term Loans Receivable – HHH (ii)	Amortized Cost	314
Short-Term Loans Receivable – Valley Agriceuticals (ii)	Amortized Cost	678
Interest Receivable	Amortized Cost	86
		<u>\$ 7,726</u>

**(i) Short-Term Loans Receivable with Derivative Features**

In conjunction with its agreement to purchase Lighthouse Strategies, LLC (“Lighthouse”), the Company entered into an escrow and loan arrangement, with certain embedded derivative. In the first quarter of 2018, the Company paid approximately \$5,500 thousand in cash. The Company also transferred 500,000 E Units to be issued upon closing, valued at approximately \$568 thousand, which are held in escrow until certain contingent events occur. Portions of the Company's escrow payments are drawn as a loan, with a stated interest rate of 6%. Settlement of these instruments varies based on contingent events and returns are not fixed, with amounts indexed to expected cash flows of the borrowing entity. As such, the Company records this loan receivable at FVTPL. Each period, the loan is measured using a probability-weighting analysis of expected outcomes, which utilize Level 3 inputs. The inputs include discount rate (9%) and expected settlement timing (5 to 9 months). The table below reflects the activity during the year for this loan receivable and the fair value at December 31, 2018. This instrument is expected to be settled during the second quarter of 2019.

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<i>(\$ in thousands)</i>	<u>2018</u>
Fair value at January 1, 2018	\$ -
Initial Recognition	6,068
Fair Value Gain or (Loss)	580
Fair value at December 31, 2018	<u>\$ 6,648</u>

A change in 10% of any of the assumptions would have an immaterial impact on the Company’s financial statements. Gains and losses recognized for these instruments were recorded in Other Income (Expense), Net.

(ii) **Other Short-Term Loans Receivable**

In conjunction with its agreements to acquire Hope Heal Health, Inc. (“HHH”) and Valley Agriceuticals, LLC (“Valley Agriceuticals”), the Company entered into certain non-derivative loan arrangements, which are measured at amortized cost, in the fourth quarter of 2018. The loan arrangement with HHH allows for a maximum draw of \$1,418 thousand. The loan arrangement with Valley Agriceuticals allows a maximum draw of \$3,000 thousand through December 31, 2018 and increases to \$5,000 thousand subsequent to December 31, 2018. The following is a summary of the balances as of December 31, 2018:

<i>(\$ in thousands)</i>	<u>2018</u>
Short-Term Notes Receivable – HHH	\$ 314
Short Term Notes Receivable – Valley Agriceuticals	678
	<u>\$ 992</u>

(b) **Loans Receivable, Long-Term**

The Company entered into certain loan arrangements that contained embedded derivatives comprising of a call and put option and a stated interest rate of 5.25%. Settlement of the instruments varies based on contingent events and returns are not fixed. As such, the Company records this loan receivable at FVTPL. Each period, the loan is measured using a probability-weighting analysis of expected outcomes, which utilize Level 3 inputs. The inputs include market rates ranging from 6.2% to 20.0%, a risk-free rate of 2.5% and expected settlement timing of two years. As the fair value was based on Level 3 inputs and resulted in a day one gain that did not arise from a change in factor that market participants would take into account when pricing the instruments, the difference between the fair value and the transaction price was deferred. At December 31, 2018, of the \$14,500 thousand maximum loan commitment, \$7,280 thousand had been drawn on these loans.

(c) **Derivative Liability**

In conjunction with its acquisition of PDI and AFS, in which the sellers had an option to settle all or a portion of the consideration in cash or shares of the Company, the Company recorded a derivative liability at each respective acquisition date. Each derivative was valued using a probability-weighting analysis of the discounted expected future value to be settled, which utilized Level 3 inputs. These inputs were unit exchange price discount factor (0.80), portion of consideration to be settled in cash (75%), portion of units to be settled in

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shares (25%), expected timeline to settle shares (3 to 8 months), volatility (100%), risk free rate (1.89%), and discount rate (9%). The Company also acquired NCI in the purchase of PDI, with a fixed put option, recorded at \$178 thousand.

The table below reflects the activity during the year for the Company's derivative liabilities and the fair value of each instrument at December 31, 2018.

<i>(\$ in thousands)</i>	<u>Acquisition of PDI</u>	<u>Acquisition of AFS</u>
Fair value at January 1, 2018	\$ -	\$ -
Recorded on Acquisition Date	6,435	2,018
Reclassifications to Consideration Payable	(4,897)	-
Settlement in Shares	(1,397)	-
Settlement in Cash	-	(1,700)
Fair Value (Gain) or Loss	37	(318)
Fair value at December 31, 2018	<u>\$ 178</u>	<u>\$ -</u>

The derivative liabilities related to the acquisition of AFS and PDI settled during the fourth quarter of 2018. During the fourth quarter of 2018, a portion of the PDI liability became fixed as a set amount of cash and was reclassified to Deferred and Contingent Consideration Payable. During the fourth quarter of 2018, a portion of the liability was settled via the issuance of shares with a value of \$1,397 thousand (258 thousand shares). Gains and losses recognized for these instruments were recorded in Other Income (Expense), Net.

**(d) Stock Purchase Warrants**

During the year ended December 31, 2018, the Company recorded warrant expense of \$1,241 thousand, of which \$146 was classified as a long-term derivative liability. Certain of these warrants were exercised during the year ended December 31, 2018. The fair value of warrants issued was determined using the Black-Scholes option-pricing model utilizing various Level 3 inputs. The share price on the exercise dates ranged from \$5.00 to \$5.23.



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**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:

**(a) 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 December 31, 2018 and 2017 is the carrying amount of cash, accounts receivable and loans receivable. The Company does not have significant credit risk with respect to its customers or loan counterparties, based on the continued economic strength of the U.S., including steady GDP growth, low unemployment, strength in the U.S. capital markets, and the low interest rate environment. Although all deposited cash is placed with U.S. financial institutions in good standing with regulatory authorities, 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.

The Company's aging of accounts receivables as of December 31, 2018 and 2017 was approximately as follows:

<i>(\$ in thousands)</i>	<b>2018</b>	<b>2017</b>
0 to 60 days	\$ 3,469	\$ 1,030
61 to 120 days	181	1
120 days +	28	-
Total	<u>\$ 3,678</u>	<u>\$ 1,031</u>

The Company has no history of write-offs and an immaterial amount of aged accounts receivable. As such, it recorded no estimated credit losses for the years ended December 31, 2018 or 2017.

**(b) Asset Forfeiture Risk**

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

**(c) 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.

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In addition to the commitments outlined in Note 10 and Note 16, the Company has the following contractual obligations as of December 31, 2018:

<i>(\$ in thousands)</i>	<u>&lt; 1 Year</u>	<u>1 to 3 Years</u>	<u>3 to 5 Years</u>	<u>Total</u>
Accounts Payable & Other Accrued Expenses	\$ 7,595	\$ -	\$ -	\$ 7,595
Deferred Consideration and Other Payables	\$ 14,873	\$ -	\$ -	\$ 14,873
Contingent Consideration	\$ -	\$ 3,096	-	\$ 3,096

In addition to the commitments outlined in Note 10 and Note 14, the Company has the following contractual obligations as of December 31, 2017:

<i>(\$ in thousands)</i>	<u>&lt; 1 Year</u>	<u>1 to 3 Years</u>	<u>3 to 5 Years</u>	<u>Total</u>
Accounts Payable & Other Accrued Expenses	\$ 2,641	\$ -	\$ -	\$ 2,641
Subscription Deposits Refundable	\$ 400	\$ -	\$ -	\$ 400
Related Party Payables and Notes	\$ 1,053	\$ -	\$ -	\$ 1,053

**(d) Market Risk**

*(i) Currency Risk*

The operating results and financial position of the Company are reported in U.S. dollars. As of December 31, 2018, the Company's financial assets and liabilities are denominated solely in U.S. dollars. However, some of the Company's financial transactions are denominated in currencies other than the U.S. dollar. The results of the Company's operations are subject to currency transaction and translation risks.

In conjunction with the settlement of its RTO transaction and concurrent placement, the Company recorded a realized foreign exchange loss of \$763 thousand in Other Income, Net for the year ended December 31, 2018.

As of December 31, 2018 and 2017, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

*(ii) 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 does not have interest-bearing debt on its balance sheet as of December 31, 2018.

*(iii) Price Risk*

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

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*(iv) 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 COGS when calculating federal tax liability. Any increase in tax levies resulting from additional tax measures may have a further adverse effect on the operations of the Company, while any decrease in such tax levies will be beneficial to future operations.

*(v) 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.

**19. CAPITAL MANAGEMENT**

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The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use existing funds, as well as funds from the future sale of products to fund operations and expansion activities.

As of December 31, 2018, the Company is not subject to externally imposed capital requirements.

**20. SEGMENTED INFORMATION**

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The Company operates in one segment, the production and sale of medical cannabis.

All property and equipment and intangible assets are located in the United States.

All revenues were generated in the United States for the year ended December 31, 2018.

**21. EARNINGS PER SHARE**

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Earnings (Loss) per Share ("EPS") is calculated by dividing the net earnings or loss attributable to shareholders by the weighted average shares outstanding.

No potentially diluted shares were included in the calculation of EPS for the years ended December 31, 2018 or 2017, as their impact would have been anti-dilutive due to net losses in these periods.

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The following is a reconciliation for the calculation of basic and diluted earnings (loss) per share (in thousands, except per share amounts) for the years ended December 31, 2018 and 2017:

<b>Net (Loss) Per Share</b> ( <i>\$ in thousands, except per share data</i> )	<u><b>2018</b></u>	<u><b>2017</b></u>
Net (Loss) Attributable to Cresco Labs, Inc. Shareholders	\$ (1,915)	\$ (3,176)
Weighted-Average Number of Shares Outstanding	<u>59,343</u>	<u>27,492</u>
<b>Earnings (Loss) Per Share – Basic and Diluted</b>	<u>\$ (0.03)</u>	<u>\$ (0.12)</u>

**22. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES**

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As a result of the Company's Reverse Takeover on November 30, 2018, the Company now accounts for income taxes in accordance with IAS 12 - Income Taxes, under which deferred tax assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying values of assets and liabilities and the respective tax bases. As a result of the transaction, the Company recognized a net deferred tax liability of \$607 thousand with a corresponding decrease to Shareholders' Equity.

As the Company operates in the legal cannabis industry, the Company is subject to the limits of IRC Section 280E for U.S. federal, Illinois state, and Pennsylvania state income tax purposes under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E. However, the State of California does not conform to IRC Section 280E and, accordingly, the Company deducts all operating expenses on its California Franchise Tax Returns.

The Company intends to be treated as a United States corporation for United States federal income tax purposes under section 7874 of the U.S. Tax Code and is expected to be subject to United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada) (the "ITA") for Canadian income tax purposes. As a result, the Corporation will be subject to taxation both in Canada and the United States.

As of December 31, 2018, the Company has \$37 thousand of non-capital Canadian losses which expire in 2038, \$1,733 thousand of California net operating losses which expire in 2038, \$21 thousand of U.S. federal net operating losses which expire in 2037 and \$42 thousand of U.S. federal net operating losses which have an indefinite carryforward period.

The Company determined that the tax impact of certain arrangements between its management companies and operating companies are not probable that they would be sustained under IFRIC 23 due to the evolving interpretations of Section 280E. As a result, the Company recorded a reserve for an uncertain tax position of \$2,619 thousand. Of this amount, \$275 thousand relates to penalties, which are classified as Accounts Payable and Accrued Expenses within the Consolidated Statements of Financial Position. The Company is early adopting IFRIC 23 as of December 31, 2018.

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Provision for income taxes consists of the following for the years ended December 31, 2018 and 2017:

<i>(\$ in thousands, except per share data)</i>	<u>2018</u>	<u>2017</u>
<b>Current:</b>		
Federal	\$ 2,827	\$ -
State	<u>32</u>	<u>-</u>
Total Current	2,859	-
<b>Deferred:</b>		
Federal	\$ 1,230	\$ -
State	<u>285</u>	<u>-</u>
Total Deferred	1,515	-
<b>Total</b>	<u>\$ 4,374</u>	<u>\$ -</u>

As of December 31, 2018 and 2017, the components of deferred tax assets and liabilities were as follows:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
<b>Deferred Tax Assets</b>		
Share-based Compensation	\$ 925	\$ -
Net Operating Losses	134	-
Other	<u>12</u>	<u>-</u>
Total Deferred Tax Assets	\$ 1,071	\$ -
<b>Deferred Tax Liabilities</b>		
Biological Assets	\$ (2,574)	\$ -
Inventory	(723)	-
Property, Plant and Equipment	(1,066)	-
Intangible Assets	(1,101)	-
Other	<u>(66)</u>	<u>-</u>
Total Deferred Tax Liabilities	\$ (5,530)	\$ -
<b>Net Deferred Tax Liabilities</b>	<u>\$ (4,459)</u>	<u>\$ -</u>

The amounts above may differ from the amounts recorded in Deferred Tax Asset and Deferred Tax Liability in the Consolidated Statements of Financial Position due to netting for tax filing groups for which the company has the legal right and intention to settle on a net basis as allowable under IAS 12.71.

The reconciliation between the effective tax rate on income from continuing operations and the statutory tax rate is as follows:

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<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Expected Income Tax Expense at Statutory Tax Rate	\$ 1,568	\$ -
Tax Rate Differences	(1,014)	-
Pass Through and Non-Controlling Entities	(1,357)	-
State Tax Expense, net	250	-
Permanently Non-Deductible Items	1,697	-
Uncertain Tax Treatment	2,619	-
Share-based Compensation	313	-
Net Changes in Deferred Tax Assets Not Recognized	592	-
Other	<u>(294)</u>	<u>-</u>
<b>Income Tax Expense</b>	<b><u>\$ 4,374</u></b>	<b><u>\$ -</u></b>
<b>Effective Tax Rate</b>	<b><u>58.58%</u></b>	<b><u>-</u></b>

Movement in net deferred tax liabilities:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
Balance at the beginning of the year	\$ -	\$ -
Recognized in Profit/Loss	(1,515)	-
Recognized in Goodwill	(2,423)	-
Recognized in Equity	<u>(521)</u>	<u>-</u>
<b>Balance at the end of the year</b>	<b><u>\$ (4,459)</u></b>	<b><u>\$ -</u></b>

Recognized in equity is a deferred tax liability of \$521 thousand comprised of \$607 thousand related to the reverse takeover partially offset by \$86 thousand related to share-based compensation reserve.

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

<i>(\$ in thousands)</i>	<u>2018</u>	<u>2017</u>
<b>Unrecognized deductible temporary differences:</b>		
Non-capital losses carried forward	\$ 37	\$ -
Capital raise expenses	<u>2,157</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 2,194</u></b>	<b><u>\$ -</u></b>

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**23. SUBSEQUENT EVENTS**

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The Company has evaluated subsequent events through May 6, 2019, which is the date on which these financial statements were issued.

On March 18, 2019, the Company announced that it was entering the Florida market through the signing of a letter agreement to acquire the ownership interests or assets of VidaCann Ltd. and/or affiliated entities (“VidaCann”), one of the largest and most advanced providers of medical cannabis in Florida. The purchase consideration is approximately \$120,000 thousand and will be comprised of a mix of Cresco Labs shares, which will be subject to a 6 to 12-month lock-up agreement following closing, and cash. The Transaction is anticipated to close during the second quarter and will be subject to customary closing conditions.

On April 1, 2019, the Company entered into a definitive agreement (the “Agreement”) with CannaRoyalty Corp. d/b/a Origin House, pursuant to which Cresco Labs, Inc. will acquire all of the issued and outstanding shares of Origin House (the “Transaction”). Under the terms of the Agreement, holders of common shares of Origin House will receive 0.8428 subordinate voting shares of Cresco Labs, Inc. for each Origin House Share (the “Exchange Ratio”).

The Transaction represents a total consideration of approximately C\$1,000,000 thousand on a fully-diluted basis, or C\$12.68 per Origin House Share (based on the Exchange Ratio and the closing price of Cresco Labs Shares on March 29, 2019, the last trading day prior to the announcement of the Transaction). The Transaction represents the largest public company acquisition in the history of the U.S. cannabis industry. The Transaction is expected to close by the end of June 2019 and is subject to the conditions set out in the Agreement including customary representations, warranties and covenants for transactions of this type, including a termination fee in the amount of C\$45,000 thousand payable by Origin House in the event that the Transaction is terminated in certain circumstances.

On April 11, 2019, the Company announced that it received approval from the Illinois Department of Financial and Professional Regulation (IDFPR) for Cresco’s previously announced acquisitions of licensed medical cannabis dispensaries MedMar Rockford, MedMar Lakeview and PDI Medical. Accordingly, deferred cash consideration of \$7,231 thousand and share consideration of \$19,498 thousand were settled for MedMar. For PDI, \$4,803 thousand in cash consideration and \$294 thousand of contingent consideration relating to tax payments were settled.