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

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

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

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

OVERVIEW OF THE COMPANY

Cresco Labs, Inc. ("**Cresco**" or the "**Company**") was incorporated in the Province of British Columbia and is licensed to cultivate, manufacture and sell cannabis and cannabis products. The Company operates in Illinois, Pennsylvania, Ohio, California, Nevada, Arizona, Massachusetts, New York, and Florida.

Cresco is comprised of the following companies:

- Cresco Labs, LLC ("**Cresco IL**"), of which the Company owns 43.1%.
- Cresco Labs PA, LLC ("**Cresco PA**"), wholly-owned by Cresco IL, which holds a 100% interest in an operating company, Cresco Yeltrah, LLC ("**Yeltrah**").
- Cresco IL holds a 99% interest in an operating company, Cresco Labs OH, LLC ("**Cresco Ohio**").
- Cresco Edibles, LLC, wholly-owned by Cresco IL, which holds a 75% interest in an operating company, TSC Cresco, LLC ("**TSC**").
- Cresco Labs SLO, LLC ("**California**"), wholly-owned by Cresco IL, which holds an 80% interest in an operating company, SLO Cultivation, Inc ("**SLO**").
- Cresco Labs TINAD, LLC ("**TINAD")**, wholly-owned by Cresco IL, which holds a 98% interest in an operating entity, PDI Medical Ill, LLC ("**PDI**").
- Cresco Labs Phoenix, LLC, wholly-owned by Cresco IL, which holds an 89.5% interest in an operating company, Phoenix Farms of Illinois, LLC ("**Phoenix**").
- Cresco Labs Nevada, LLC, wholly-owned by Cresco IL, which holds a pending 25% interest in an operating company, Lighthouse Strategies, LLC ("**Lighthouse**").
- Cresco Labs Arizona, LLC, wholly-owned by Cresco IL, which holds a 100% interest in an operating company, Arizona Facilities Supply, LLC and which holds a 100% interest in an operating company, Encanto Green Cross Dispensary, LLC, (collectively, "**Arizona**").

- MedMar Inc., wholly-owned by Cresco IL, which holds a 75% interest in MedMar Lakeview, LLC ("**Medmar Lakeview**") and a 87.5% interest in MedMar Rockford, LLC ("**Medmar Rockford**").

- JDC Elmwood, LLC, wholly-owned by Cresco IL, which holds a 100% interest in an operating company, FloraMedex, LLC ("**FloraMedex**").

- Cresco HHH, LLC ("**Cresco HHH**"), wholly-owned by Cresco IL, which holds a pending 100% interest in an operating company, Hope Heal Health, Inc. ("**HHH**").

- Cresco Labs, LLC, wholly-owned by Cresco U.S. Corp., which holds a pending 100% interest in an operating company, Gloucester Street Capital, LLC ("**GSC**").

- Cresco Labs, LLC, wholly-owned by Cresco IL, which holds a pending 100% interest in an operating company, VidaCann, Ltd.("**VidaCann**").

Cresco is primarily engaged in the business of cultivating medical grade cannabis, manufacturing medical products derived from cannabis cultivation, and distributing such products to medical or adult use consumers in legalized cannabis markets. Cresco exists to provide high-quality and consistent cannabis-based products to consumers. Cresco's business focuses on regulatory compliance while working to develop condition-specific strains of cannabis and non-invasive delivery methods (alternatives to smoke inhalation) to provide controlled-dosage medicinal cannabis relief to qualified patients and consumers in legalized cannabis markets. It currently operates three medical cannabis cultivation and manufacturing centers in Illinois, five dispensary locations in Illinois, one medical cannabis cultivation and manufacturing center in Pennsylvania, three dispensary locations in Pennsylvania, one medical cannabis cultivation center and dispensary license in Ohio, one cultivation center in California, two cultivation centers in Arizona, and one manufacturing and dispensary location in Arizona. In Illinois, Cresco's three applications received the highest, second highest and third highest scores, respectively of all applications reviewed by the State of Illinois. In Pennsylvania, Cresco was awarded the highest score during the application process and had the second highest overall score, making it one of only five cultivators that was also awarded a dispensary license which allows for up to three dispensaries. The Company was subsequently awarded a second dispensary license allowing an additional three dispensaries for a total of six locations across the state. In Ohio, Cresco received the seventh highest overall score. Cresco is currently located at 400 W. Erie St, Chicago, IL 60654 and employs over 600 people, while being voted a finalist for "Best Places to Work" by Crain's Chicago Business in 2019.

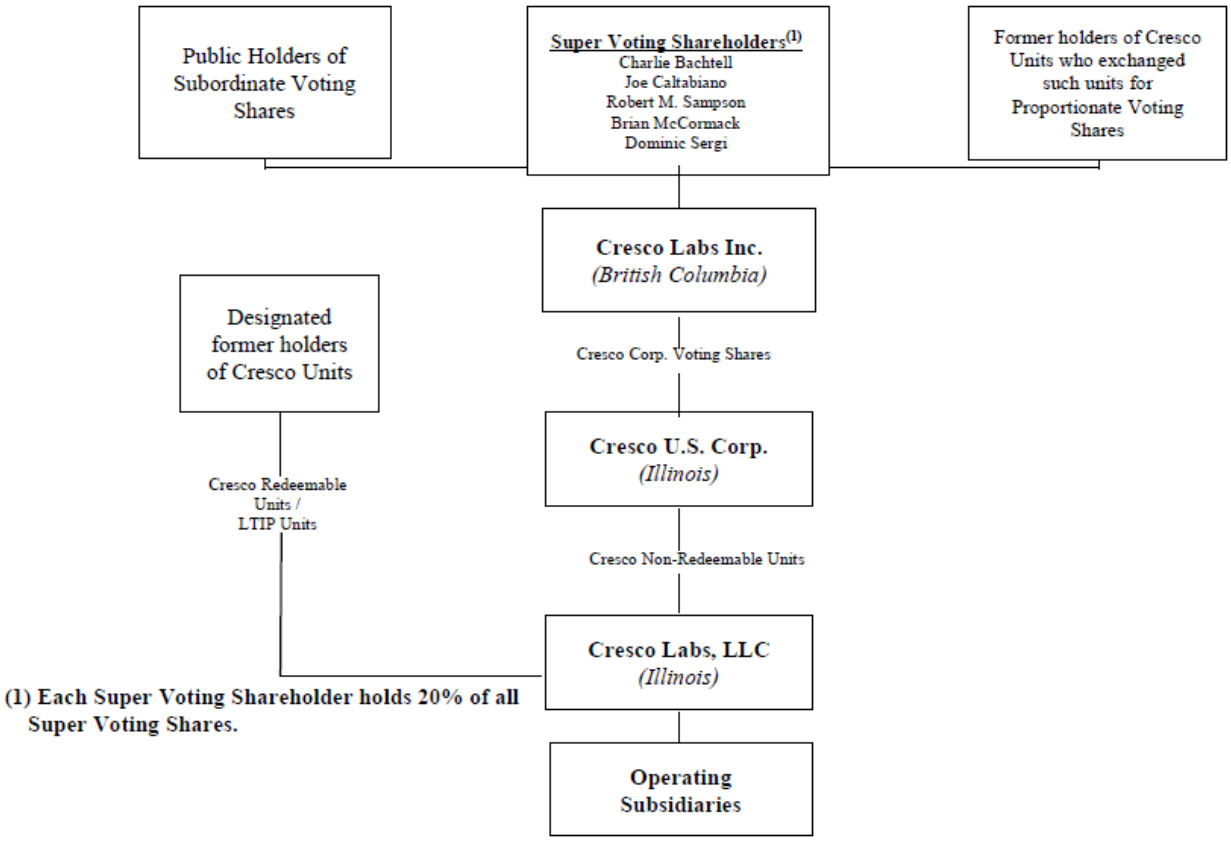
Issuing IPO, Reverse Takeover & Corporate Structure

The Company (then Randsburg Gold Corporation) 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, 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 class of common shares, redesignate such class as the class of Subordinate Voting Shares and create the Proportionate Voting Shares and the Super Voting Shares.

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. Pursuant to the Reverse Takeover, among the Company (then Randsburg) and Cresco, a series of transactions ("**transaction**") was completed on November 30, 2018 resulting in a reorganization of Cresco 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 under applicable securities laws.

Cresco 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.

Set forth below is the organization chart of the Company. The material subsidiaries of the Cresco did not change in connection with the Reverse Takeover.



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

Illinois Operations

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

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

In March 2018, Cook County voters (which is by far and large the most populous county in the state, encompassing all of Chicagoland metro area) responded positively for state-wide recreational legalization with a 68% majority. Although the vote was non-binding, the voting leverage of Cook County, which encompasses more than 130 municipalities, may have played a role in the November 2018 gubernatorial elections during which numerous candidates have outwardly pledged their support for cannabis legislation, including Governor JB Pritzker.

In January 2019, JB Pritzker was sworn into office as Governor of Illinois. Cresco's CEO and co-founder, Charles Bachtell, has been appointed to the Cannabis Legalization Subcommittee of the governor's transition team. Cannabis Legalization is one of four subcommittees under the Governor's Restorative Justice and Safe Communities Transition Committee. The primary goals of the Cannabis Legalization Subcommittee are to evaluate and develop implementation recommendations for the Governor-elects platform on legalizing cannabis.

The Opioid Alternative Pilot Program launched on January 31, 2019 and allows patients that receive or are qualified to receive opioid prescriptions access to medical marijuana as an alternative in situations where an opioid could generally be prescribed. Under this new program, patients with doctor approval can receive near-immediate access to cannabis products from an Illinois licensed dispensary. The Opioid Alternative Pilot Program eliminates the previously required fingerprinting and background checks that often delay patients' access to medical cannabis by up to three months.

Cresco currently operates three (3) medical cannabis cultivation and manufacturing centers in Illinois and owns five (5) dispensary locations in Illinois. Licenses were awarded based on merit in a highly competitive application process to applicants who demonstrated strong operational expertise and financial backing. To date, Cresco has established a 28% wholesale market share in Illinois.

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

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

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

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

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

The retail dispensary licenses held by Phoenix, PDI, FloraMedex, MedMar Lakeview and MedMar Rockford permits it to purchase marijuana and marijuana products from cultivation/processing facilities and allows the sale of marijuana and marijuana products to registered patients.

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

Pennsylvania Operations

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

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

On March 22, 2018, it was announced that the final phase of the Pennsylvania medical marijuana program would initiate its rollout, which will include 13 additional cultivation/processing licenses and 23 additional dispensary licenses. The application period ran from April 2018 through May 17, 2018. Yeltrah submitted additional dispensary applications and in December of 2018 an additional dispensary license was obtained to open three (3) additional dispensary locations, for a total of six (6) in the state of Pennsylvania, three of which are currently operational and the other three (3) anticipated to be operational in the third and fourth quarters of 2019.

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

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

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

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

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

Ohio Operations

House Bill 523, effective on September 8, 2016, legalized medical marijuana in Ohio. The Ohio Medical Marijuana Control Program ("**MMCP**") allows people with certain medical conditions, upon the recommendation of an Ohio-

licensed physician certified by the State Medical Board, to purchase and use medical marijuana. House Bill 523 required and the framework for the MMCP became effective as of September 2018. This timeframe allowed for a deliberate process to ensure the safety of the public and to promote access to a safe product.

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

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

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

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

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

Cresco Ohio was awarded one provisional dispensary license which is located in Wintersville, Ohio.

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

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

On December 12, 2018, Cresco Ohio was granted the fist dispensary Certificate of Operation in the state, which was over a month in advance of any other dispensary operator. Retail sales commenced on January 16, 2019 with the first cannabis sale taking place at the Wintersville dispensary. This was the second state medical marijuana program in which the Company was first to market.

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

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

California Operations

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

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

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

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

MAUCRSA went into effect on January 1, 2018.

On June 7, 2018 Cresco acquired a 60% ownership interest in SLO, a marijuana cultivation facility in operation in the cities of Carpinteria (Santa Barbara County) and San Luis Obispo (San Luis Obispo County) California. On September 27, 2018, Cresco acquired a further 20% ownership interest to bring the total ownership to 80%. The cultivation facility has a capacity of up to 650,000 square feet of greenhouse production space.

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

California state and local licenses are renewed annually. Each year, licensees are required to submit a renewal application per guidelines published by BCC. While renewals are annual, there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and there are no material violations noted against the applicable license, SLO would expect to receive the applicable renewed license in the ordinary course of business.

While SLO's compliance controls have been developed to mitigate the risk of any material violations of a license arising, there is no assurance that the licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned operations of the Resulting Issuer and have a material adverse effect on its business, financial condition, results of operations or prospects.

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

Mendota (Fresno County)

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

- SLO has submitted an application for a temporary Type 11 (Distribution), A&M.

Carpinteria (SB County)

- SLO has been issued temporary licenses for Cultivation: Small Mixed-Light Tier 1 and Specialty Mixed-Light Tier 1. Additionally, SLO has been issued temporary licenses in:

    - Nursery, allowing for the planting and cultivation of medical cannabis from seeds, clones, and immature plants.

    - Processor Type, allowing for the harvesting, drying, curing, grading or tanning of cannabis as well as the packaging and labelling of certain non-manufactured cannabis.

- SLO submitted annual applications for the four listed license types to the state regulator awaiting approval.

The City of Chula Vista

- SLO submitted two applications during the application Initial Application Period, both awaiting approval:

    - City of Chula Vista Restricted Cannabis License Application – Storefront Retail

    - City of Chula Vista Non-Restricted Cannabis License Application – Distribution

Origin House

On April 1st, 2019, Cresco entered into a definitive agreement ("**Agreement**") with CannaRoyalty Corp. ("**Origin House**") pursuant to which Cresco Labs will acquire all issued and outstanding shares of Origin House. Under the terms of the Agreement, holders of common shares of Origin House will receive 0.8428 subordinate voting shares of Cresco Labs for each Origin House Share.

The Transaction represents a total consideration of approximately C$1.1 billion on a fully-diluted basis, and as of this date, the largest public company acquisition in the history of the U.S. cannabis industry. The combined entity will be: one of the largest vertically-integrated multi-state cannabis operators in the United States; a leading North American cannabis company, by footprint; and one of the largest cannabis brand distributors.

Origin House has become a leading distributor and provider of brand support services in California, the world's largest regulated cannabis market. Origin House's proven strategy has been to build relationships with established dispensaries, build partnerships with established market-leading brands, develop promising cannabis product companies, and then leverage its full suite of support services to transform those products into strong California consumer brands. Origin House delivers over 50+ cannabis brands to more than 500 dispensaries in California, representing approximately 60% market penetration. Following the closing of this acquisition, Cresco brands is

expected to be in over 725 dispensaries and will have access to several additional licenses for cultivation, manufacturing and distribution of cannabis within the state of California.

Nevada Operations

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

Cresco entered into a Unit Purchase and Sales Agreement with Lighthouse Strategies Inc. ("**Lighthouse**") and Cresco Labs Nevada, LLC to acquire a 25% ownership interest in Paradise Wellness Center, LLC ("**Paradise Wellness**") d/b/a Las Vegas Releaf and Silver State Wellness, LLC ("**Silver State**"), entities licensed to operate in the state of Nevada. This agreement is pending state and local approvals to effectuate the transfer of ownership interest.

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

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

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

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

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

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

New York Operations

The State of New York's medical cannabis program was introduced in July of 2014 when Governor Andrew Cuomo signed the Compassionate Care Act, which legalized medical cannabis oils for patients with certain qualifying conditions. Under this program, five registered organizations **(**"**ROs**"**)** were licensed to dispense cannabis oil to patients, with the first sale to a patient completed in January 2016. In December 2016, the New York State Department of Health **(**"**NYSDOH**"**)** added chronic pain as a qualifying condition and in the month-and-a-half following the addition of chronic pain, the number of registered patients increased by 18%. In August 2017, the NYSDOH granted licenses to five additional registered organizations.

In November 2017, Governor Cuomo signed a bill to add PTSD as a qualifying condition, and, in July 2018, the NYSDOH added opioid replacement as a qualifying condition, meaning any condition for which an opioid could be prescribed is now a qualifying condition for medical cannabis. In August 2018, Governor Cuomo, prompted by a NYSDOH study which concluded the "positive effects" of cannabis legalization "outweigh the potential negative impacts", appointed a group to draft a bill for regulating legal adult-use cannabis sales in New York. Each RO license allows for the cultivation, processing, and dispensing of medical cannabis products. Each RO is permitted to open four dispensaries in NYSDOH-designated regions throughout the State, and one cultivation/processing facility. Permitted products include oil-based formulations (vaporizer cartridges, tinctures, capsules), and ground-flower sold in tamper-proof vessels. Each RO is required to cultivate and process all medical cannabis products they dispense; however, wholesale transactions are permitted with approval from the State and Home delivery is now permitted.

On or about October 24, 2018, Cresco entered into a definitive agreement to merge a subsidiary with and into Gloucester Street Capital, LLC, the parent entity of Valley Agriceuticals, LLC ("**Valley Ag**"). Valley Ag is one of the ten holders of a vertically integrated license from the New York State Department of Health ("**NYSDOH**") allowing for the cultivation and processing of medical cannabis as well as the establishment of four medical cannabis dispensaries in the State of New York for consideration consisting of cash, equity, and contingent consideration based upon the achievement or occurrence of certain milestones or events. To date, Valley Ag has two dispensaries and a processing facility open and operational. Closing of the transaction is subject to customary closing conditions, including receipt of regulatory approval from the NYSDOH. Cresco expects the closing to occur in the second quarter of 2019.

Through the aforementioned agreements, and regulatory approval, Cresco will have a cultivation and manufacturing facility within the state of New York, as well 4 dispensary locations strategically located across the state.

Massachusetts Operations

The Massachusetts medical cannabis market was established through "An Act for the Humanitarian Medical Use of Marijuana" in November 2012 when voters passed Ballot Question 3 "Massachusetts Medical Marijuana Initiative" with 63% of the vote. The first Massachusetts dispensary opened in June 2015 and by November 2016, Massachusetts voters legalized adult-use cannabis by passing ballot Question 4 – Legalize Marijuana with 54% of the vote. In July 2017, Governor Baker signed legislation that would lay the groundwork for the state's adult-use market. The Cannabis Control Commission (the state's regulatory body which creates regulations for the adult-use market) aimed to officially launch adult-use sales on July 1, 2018 but stumbling blocks such as a lack of licensed testing labs and disagreements between officials and businesses had slowed the rollout and sales for adult-use cannabis officially began in November 2018.

The Massachusetts Department of Health oversees the medical cannabis program. Each medical licensee must be vertically integrated and may have up to two locations. Licensed medical dispensaries are given priority in adult-use licensing and the Cannabis Control Commission oversees the adult-use cannabis program. Adult-use cultivators will be grouped into 11 tiers of production (ranging from up to 5,000 square feet to no larger than 100,000 square feet) and regulators will move a licensee down to a lower tier if that licensee has not shown an ability to sell at least 70 percent of what it produced. Medical dispensaries that wish to add the ability to sell cannabis products to nonpatients will be required to reserve 35 percent of their inventory or the six-month average of their medical cannabis sales for medical cannabis patients. In order to achieve an adult-use license, a prospective licensee must first sign a "Host Community Agreement" with the town in which it wishes to locate. Roughly two-thirds of municipalities in the State have a ban

or moratorium in place that prohibits cannabis businesses from operating within their jurisdiction. In both the medical and adult-use markets, extracted oils, edibles, and flower products are permitted, as well as wholesaling.

On or about November 19, 2018, Cresco entered into a definitive agreement to acquire 100% of the shares and membership interests, as applicable, of Hope Heal Health, Inc. ("**HHH**") and an affiliated real estate entity for consideration consisting of cash and the assumption of certain indebtedness. HHH holds a provisional certificate of registration from the State of Massachusetts Department of Health (the "**Massachusetts Department**") that will allow for cultivation, manufacturing and processing and the establishment and operation of a medical cannabis dispensary in Fall River, Massachusetts once a final certificate of registration is granted, and has the ability to apply for up to two additional such licenses. HHH has entered into host community agreements with the municipalities of Rockland, North Attleborough, and Fall River to allow the siting of a medical cannabis dispensary, subject to site approval, and has obtained provisional adult-use licenses from the Massachusetts Cannabis Control Commission. It is anticipated that closing of the transaction will occur in the second quarter of 2019, subject to receipt of applicable regulatory approvals.

Arizona Operations

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

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

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

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

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

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

are renewed annually so long as the Dispensary is in good standing with ADHS and pays the renewal fee and submits an independent third-party financial audit.

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

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

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

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

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

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

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

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

Florida Operations

In 2014, Senate Bill 1030 – Cannabis created the "Compassionate Medical Cannabis Act of 2014" which allowed specified physicians to issue orders for certain patients, allowing them to use low-THC cannabis, which is defined as having no more than 0.8% THC and more than 10% CBD. This required the Department of Health to create a registry of patients and to authorize organizations to grow and dispense cannabis. The act also creates an exception from the definition of "cannabis" in s. 893.02, F.S., for low THC cannabis that is manufactured, possessed, sold, purchase, delivered, distributed, or dispensed, in conformance with newly created s. 381.986, F.S.

Floridians overwhelmingly approved legal medical marijuana use with 71% of voters in favor of the Florida Medical Marijuana Legalization Initiative, or Constitutional Amendment 2, in 2016. Amendment 2 allowed medical use of marijuana for individuals with debilitating medical conditions as determined by a doctor. Seven months after legalization in 2016, Florida State Senate adopted the new regulations. In 2017, the Senate Bill 8A was signed into law, an implementation bill for Amendment 2.

Senate Bill 8A established procedures for physicians to issue physician certifications to patients who have qualifying medical conditions. The bill includes all debilitating medical conditions listed in the State Constitution as a qualifying medical condition: cancer, epilepsy, glaucoma, HIV, AIDS, PTSD, ALS, Crohn's disease, Parkinson's disease, multiple sclerosis, or other debilitating medical condition of the same kind or class as or comparable to those enumerated. The bill also allows marijuana edibles and vaping, establishes residency requirements for patients to be issued Medical Marijuana Use Registry Identification cards, ensures that qualified patients can receive low THC cannabis as well as full-THC marijuana, eliminates the 90 day waiting period before the qualified physician may register a patient, and requires that the patient be at least 21 years of age and a resident of the state.

Senate Bill 182, effective as of 03/18/2019 repeals the ban on smoking medical cannabis that was signed into law by Governor Scott in 2017. This gives doctors and patients greater access to administer medical cannabis and to decide for themselves which mode of administration is best for them. Senate Bill 182 allows patients to receive up to 2.5 ounces of whole flower cannabis every 35 days as recommenced by their doctors and requires patients under the age of 18 to have a terminal condition and to get a second opinion from a pediatrician before using medical cannabis.

The Florida Department of Health Office of Medical Marijuana Use is charged with overseeing the statewide Medical Marijuana use registry, writing and implementing the department's rules for medical marijuana, and licensing Florida businesses to cultivate, process, and dispense medical marijuana to qualified patients. In order to obtain a MMTC license, applicants must submit financial statements and undergo background checks. The law regulating Amendment 2 provides for 10 new licenses to be granted to growers in the state in addition to the seven that already exist. For every 100,000 patients added to the state's medical marijuana registry, an additional five (5) dispensaries may be opened per license and the state of Florida currently allows 30 dispensaries per license.

Cresco entered 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 "**Transaction**"). With a Vertically Integrated License, Cresco Labs has a Medical Marijuana Treatment Center license to grow, process, manufacture, distribute, and dispense the Company's house of branded products in up to, currently, 35 retail medical dispensaries in the state of Florida.

VidaCann currently operates seven (8) dispensaries in the cities of Bradenton, Deerfield Beach, Holly Hill, Orlando, Palm Bay, St. Petersburg, Tallahassee and Tampa and expects to have 14 dispensaries open by the end of June 2019. Additional dispensary locations in Bonita Springs and Port Charlotte are completed and pending operational approval, and locations in Jacksonville, West Palm Beach, Miami, and Pensacola are currently under construction and scheduled to open by the end of June 2019. VidaCann is projected to have up to 20 dispensaries by the end of 2019, while Cresco intends to further accelerate the VidaCann retail dispensary rollout. Dispensary locations are strategically located throughout the state to ensure 95% of the population of Florida is within 50 miles of a VidaCann dispensary. Delivery is available statewide to all licensed patients.

VidaCann has a fully-operational, greenhouse cultivation facility with a state-of-the-art cGMP-certified processing and analytical lab, meeting all U.S. Food and Drug Administration ("**FDA**") requirements. The fully operational 70,000 square foot cultivation and processing facility is scheduled to double in size by the end of 2019 and will allow

Cresco Labs to grow and manufacture its full suite of branded products for distribution across the state. The greenhouse maintains more than 30 premium strains and VidaCann is the only Florida cannabis company using custom-made Italian extractors that can process over 400 pounds a day.

Components of Our Results of Operations

Revenue

We derive the majority of our revenue from wholesale of cannabis product to dispensary locations which represents approximately 71% of our revenue. Our revenue from retail dispensary locations represents the remaining 29%.

Gross Profit

Gross profit is our revenue less cost of Cost of Goods Sold of Inventories, which includes cultivation costs of biological assets, Realized Changes in Fair Value of Inventory Sold, and Unrealized Gain on Changes in Fair Value of Biological Assets. Cost of Goods Sold of Inventories includes the direct costs attributable to the production of the products sold in a company. Cost of Goods Sold of Inventories are comprised of the following:

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

Cultivation costs of biological assets are comprised of cannabis plant costs.

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

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

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

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

For the years ended December 31, 2018 and December 31, 2017, selling, general and administrative expenses were comprised of the following:

	2018	2017
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	3,056	1,037
Total	$ 34,780	$ 5,241

Income Taxes

The Company, which is and will continue to be a Canadian corporation, is also expected to be classified for U.S. federal income tax purposes as a United States corporation under Section 7874 of the Code. The Company is subject to income taxes in the jurisdictions in which it operates and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. As the Company operates in the legal cannabis industry, the Company is subject to the limits of the Internal Revenue Code ("**IRC**") Section 280E 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 and a higher effective tax rate than most industries.

SELECTED FINANCIAL INFORMATION

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

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

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

	For the and As of			
	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
Revenue	$16,957	$ 3,317	$ 43,252	$ 10,982
Cost of Goods Sold of Inventories	$ (13,405)	$(3,714)	$(28,218)	$(10,724)
Realized Changes in Fair Value of Inventory Sold	$(6,907)	$ (448)	$(27,180)	$ (595)
Unrealized Gain on Changes in Fair Value of Biological Assets	$ 47,652	$ 21	$ 52,563	$ 1,489
Gross Profit (Loss)	$ 24,297	$ (824)	$ 40,417	$ 1,152
Total Expenses	$ 25,411	$ 2,263	$ 35,472	$ 5,280
Net Income (Loss) Attributed to Controlling Interest	$ (6,821)	$ (2,228)	$ (1,915)	$ (3,176)
Total Assets	$318,111	$ 41,617	$318,111	$ 41,617
Long Term Debt	$ —	$ —	$ —	$ —

Three Months Ended December 31, 2018 Compared to Three Months Ended December 31, 2017

Revenue

Revenue for the three months ended December 31, 2018 was $16,957, an increase of $13,640, or 411%, compared to revenue of $3,317 for the three months ended December 31, 2017. The increase in revenue was driven by incremental revenue from fourth quarter acquisitions in Maryland, Arizona, California, and Illinois, along with increased wholesale market share in key states of Illinois and Pennsylvania.

Cost of Goods Sold and Gross Profit

Cost of goods sold of inventories for the three months ended December 31, 2018 was $13,405, an increase of $9,691 compared to a cost of goods sold of inventories of $3,714 for the three months ended December 31, 2017. The increase was primarily attributable to increased cultivation capacity in the Illinois and Pennsylvania markets, ramping up of cultivation activities in the California market due to the SLO asset acquisition in June 2018, and the acquisition of AFS in the three months ended December 31, 2018. This also included net cultivation costs which were immediately expensed under the Company's accounting policy for biological assets, of $6,202 thousand and $286 thousand in the three months ended December 31, 2017 and 2016, respectively. Gross profit increased significantly from the prior year primarily due to the Unrealized Gain on Changes in Fair Value of Biological Assets.

Total Expenses

Total expenses for the three months ended December 31, 2018 were $25,411, an increase of $23,148 compared to total expenses of $2,263 for the three months ended December 31, 2017. The increase in total expenses was attributable to nearly $16,136 in expenses related to share-based incentive compensation and one-time expenses associated with the public listing on the Canadian Securities Exchange, acquisitions, and financing activities.

Total Other Income (Expense)

Total other income for the three months ended December 31, 2018 was $2,017, an increase of $1,971 compared to total other income of $46 for the three months ended December 31, 2017. The increase in total other income was largely due to fair value gains from acquisition activities and derivative liabilities.

Provision for Income Taxes

Income tax expense for the three months ended December 31, 2018 was $4,374 (2017: nil).

Net Income (Loss) Attributable to Controlling Interest

Net loss attributable to controlling interest for the three months ended December 31, 2018 was $6,821, an increase of $4,592, or 206% compared to a net loss of $2,229 for the three months ended December 31, 2017. The increase in net income was driven by the inclusion of retail dispensary sales and increased cost efficiencies gained from the expansion of both Illinois and Pennsylvania cultivation facilities.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenue

Revenue for the year ended December 31, 2018 was $43,252, an increase of $32,270, or 294%, compared to revenue of $10,982 for the year ended December 31, 2017. The increase in revenue was primarily driven by increased dispensary sales across all of state markets.

Cost of Goods Sold and Gross Profit

Cost of goods sold of inventories for the year ended December 31, 2018 was $28,218, an increase of $17,494 compared to $10,724 for the year ended December 31, 2017. The increase was primarily attributable to increased cultivation capacity in the Illinois and Pennsylvania markets, ramping up of cultivation activities in the California market due to the SLO asset acquisition in June 2018, and the acquisition of AFS in the three months ended December 31, 2018. This also included net cultivation costs which were immediately expensed under the Company's accounting policy for biological assets, of $6,358 thousand and $380 thousand in the three months ended December 31, 2017 and 2016, respectively. Gross profit increased significantly from the prior year primarily due to the Unrealized Gain on Changes in Fair Value of Biological Assets.

Total Expenses

Total expenses for the year ended December 31, 2018 were $35,472, an increase of $30,192 compared to total expenses of $5,280, or 572%, for the year ended December 31, 2017. The increase in total expenses was attributable to the launch of the cultivation and dispensary operation in the Pennsylvania market and the expansion of the Joliet cultivation facility in Illinois.

Total Other Income (Expense)

Total other income for the year ended December 31, 2018 was $2,522, an increase of $2,382 compared to total other income of $140 for the year ended December 31, 2017.

Provision for Income Taxes

Income tax expense for the year ended December 31, 2018 was $4,374 (2017: nil). Cresco is subject to income taxes in the jurisdictions in which we operate and, thus, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. As the Corporation operates in the legal cannabis industry, the Corporation is subject to the limits of IRC Section 280E under which the Corporation is only allowed to deduct expenses directly related to cost of sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E and a higher effective tax rate than most industries.

Net Income (Loss) Attributable to Controlling Interest

Net loss attributable to controlling interest for the year ended December 31, 2018 was $1,915, an improvement of $1,261, or 40% compared to a net loss of $3,176 or the year ended December 31, 2017. The increase in net income resulted from higher revenues in the Illinois market driven by an 75% increase in the number of patients in the Illinois

market of which our market share increased from 23.7% in 2017 to 28.0% in 2018, as well as the incremental revenue from our Pennsylvania launch.

LIQUIDITY AND CAPITAL RESOURCES

Overview

As of December 31, 2018, we held $131,302 in cash and cash equivalents, $6,726 in restricted cash, and $167,773 of working capital (current assets minus current liabilities) compared to December 31, 2017, where we held $27,043 in cash and cash equivalents, $– in restricted cash, and $29,971 of working capital (current assets minus current liabilities). The increase of $137,802 in working capital was primarily due to increases in cash, inventory and biological assets, partially offset by increase in accounts payable and accrued expenses and deferred consideration and other payables.

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

Cash Flows

Operating Activities

Net cash used in operating activities was $9,916 for the year ended December 31, 2018, an increase of $5,016 compared to $4,900 for the year ended December 31, 2017. The increase in net cash used in operating activities was primarily due to higher working capital requirements, partially offset by higher net income.

Investing Activities

Net cash used in investing activities was $81,782 for the year ended December 31, 2018, an increase of $80,090 compared to $1,692 used in investing for the year ended December 31, 2017. The increase in net cash used in investing activities was primarily due to increases in Cash Paid for Acquisitions, Net of Cash Acquired; Purchases of Property and Equipment; and Loan and Advances for Entities to be Acquired in the current period of $37,078, $27,726, and $13,859, respectively.

Financing Activities

Net cash provided by financing activities was $202,683 for the year ended December 31, 2018, an increase of $170,348 compared to $32,335 for the year ended December 31, 2017. The increase in net cash provided by financing activities was primarily due to an increase in Private Placement – May 2018, Private Placement – October 2018, and Private Placement in Connection with RTO of $23,589, $101,415, and $80,642, respectively.

CONTRACTUAL OBLIGATIONS

As of the year ended December 31, 2018, and in the normal course of business, the Company has the following obligations to make future payments, representing contracts and other commitments that are known and committed.

The Company leases 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. The Company's rent expense for the years ended December 31, 2018 and 2017 was $5,062 thousand and $4,477 thousand, respectively, and is included in cost of goods sold, and general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income.

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The Company leases its Chicago, Illinois headquarters under a non-cancelable sublease agreement with an affiliated entity, which expires in April 2020. Rent expense increased year-over-year to $185 for the year ended December 31, 2018 with the addition of a second-floor sublease agreement compared to $85 the year ended December 31, 2017, respectively, which is included in selling, general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income.

The Company leases its cultivation facilities in Joliet, Lincoln, and Kankakee, Illinois from an affiliated entity. The commencement dates of the non-cancelable leases are determined based upon a Substantial Completion Date, as defined in the lease agreements, or six months after the Illinois Department of Agriculture awards the license. The Joliet lease commenced in December 2015, the Lincoln lease commenced in February 2016, and the Kankakee lease commenced in April 2016. The terms of these lease agreements are fifteen years from the commencement date. Rent expense for these facilities was approximately $4,186 and $4,179 for the year ended December 31, 2018 and year ended December 31, 2017, respectively, which is included in cost of goods sold in the Consolidated Statements of Operations and Comprehensive Income. For financial reporting purposes, rent expense has been recorded on a straight-line basis over the terms of the leases resulting in deferred rent of approximately $2,110 and $1,506 as of December 31, 2018 and December 31, 2017, respectively.

The Company leases its cultivation facility in Brookville, Pennsylvania. The non-cancelable lease commenced on March 1, 2017, upon the announcement of a successful license application, and terms after 60 months. Rent expense was approximately $162 and $135 as of December 31, 2018 and December 31, 2017, respectively, which is included in cost of goods sold. The Company leases dispensary locations in Butler, Pennsylvania and Pittsburgh, Pennsylvania with 60-month terms and the option to extend. Rent expense was approximately $157 and $71 as of December 31, 2018 and December 31, 2017, respectively, with approximately $29 and $14 in deferred rent liability. Dispensary rent expense is included in selling, general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income.

The Company leases a dispensary location in Wintersville, Ohio with a 60-month term and the option to extend, commencing June 1, 2018. Rent expense was approximately $12 for the three months ended December 31, 2018 and $28 for the year ended December 31, 2018, with no deferred rent liability as of December 31, 2018.

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

Year Ending December 31, 2018	Scheduled Payments
2019	$ 6,572
2020	5,149
2021	5,011
2022	5,153
2023	4,982
Thereafter	33,584
Total Future Minimum Lease Payments	**$ 60,451**

In addition to the future minimum rentals disclosed above, the Company is responsible for real estate taxes and comment operating expenses incurred by the building or facility in which it leases space

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

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

RELATED PARTY TRANSACTIONS

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 distributions related to our CHP Fresco investment.

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.

	2018	2017
Management compensation	$ 2,257	$ 586
Sponsor Fees*	2,769	1,835
Share-based payments**	14,774	36
Total	**$ 19,800**	**$ 2,457**

*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.

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

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

There were no new standards effective January 1, 2018 that had an impact on the Company's combined financial statements. The following IFRS standards have been recently issued by the International Accounting Standards Board ("**IASB**"). The Company is assessing the impact of these new standards on future combined financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

IFRS 2, Share-based Payment

In June 2016, the IASB issued amendments to IFRS 2, Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendment provided guidance 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.

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. The adoption of this new standard has had no significant impact on the Company's consolidated financial statements.

IFRS 9, Financial Instruments

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.

IFRS 15, Revenue from Contracts with Customers

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.

IFRS 16, Leases

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 15 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 15. 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.

International Financial Reporting Interpretations Committee ("**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.

IAS 28, Long-term Interests

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's 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.

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 allowance the Company records, if any, is the sum of these probability weighted outcomes.

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.

Estimated Useful Lives and Depreciation of Property and Equipment

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

Estimated Useful Lives and Amortization of Intangible Assets

Amortization of intangible assets is 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.

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.

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.

Business Combinations and Asset Acquisitions

Classification 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 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.

Noncontrolling interest in the acquiree, if any, is recognized either at fair value or at the noncontrolling 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 noncontrolling 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.

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.

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 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.

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.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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:

Financial Assets:		
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 Party	$	1,363
Financial Liabilities:		
Accounts Payable and Other Accrued Expenses	$	7,320
Deferred Consideration and Other Payables	$	14,873
Derivative Liability	$	178
Contingent Consideration	$	3,096
Derivative Liabilities – Long Term	$	146

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

Financial Assets:		
Cash and Cash Equivalents	$	27,043
Accounts Receivable	$	1,011
Security Deposits – Related Party	$	1,342
Financial Liabilities:		
Accounts Payable and Other Accrued Expenses	$	2,641
Subscription Deposits Refundable	$	400
Related Party Payables and Notes	$	1,053

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 and issued 500,000 series E shareholder units of the Company, 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.

Fair value at January 1, 2018		
Recorded on Acquisition Date	$	6,068
Fair Value Gain or (Loss)		580
Fair value at December 31, 2018	**$**	**6,648**

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.

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:

Short-Term Notes Receivable – HHH	$	314
Short Term Notes Receivable – Valley Agriceuticals		678
	$	992

Long Term Loans Receivable with Derivative Features

The Company entered into certain loan arrangements that contained embedded derivatives 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 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. The maximum commitment under these loan agreements is $14,500. At December 31, 2018, $7,280 thousand had been drawn on these loans.

Derivative Liability

In conjunction with its acquisition of PDI and AFS, in which the sellers had an option to settle 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 expected share price ($6.54), 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.

($ in thousands)	Acquisition of PDI	Acquisition of AFS
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	$ 178	$ -

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. Gains and losses recognized for these instruments were recorded in Other Income (Expense), Net.

Stock Purchase Warrants

Long term derivative liabilities consisted of $1,241 in stock purchase warrants at December 31, 2018. 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:

	Number of Warrants	Weighted-Average Exercise Price
Balance as of December 31, 2017	100,000	$1.00
Issued	397,079	6.29
Exercised	(100,000)	1.00
Balance as of December 31, 2018	397,079	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. 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:

	2018
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 stock purchase warrant liability at December 31, 2018.

Financial Risk Management

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

Credit and Banking Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at 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 receivables as of December 31, 2018 and 2017 was approximately as follows:

	2018	**2017**
0 to 60 days	$ 3,469	$ 1,030
61 to 120 days	181	1
120 days +	28	-
Total	**$ 3,678**	**$ 1,031**

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.

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.

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.

In addition to the commitments outlined in Note 10 and Note 14, the Company has the following contractual obligations as of December 31, 2018:

	< 1 Year	1 to 3 Years	3 to 5 Years	Total
Accounts Payable & Other Accrued Expenses	$ 7,320	$ -	$ -	$ 7,320
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:

	< 1 Year	1 to 3 Years	3 to 5 Years	Total
Accounts Payable & Other Accrued Expenses	$ 2,641	$ -	$ -	$ 2,641
Subscription Deposits Refundable	$ 400	$ -	$ -	$ 400
Related Party Payables and Notes	$ 1,053	$ -	$ -	$ 1,053

Market Risk

Currency Risk

The operating results and financial position of the Company are reported in U.S. dollars. 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 (Expense), 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.

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.

Price Risk

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

Tax Risk

Tax risk is the risk of changes in the tax environment that would have a material adverse effect on the Company's business, results of operations, and financial condition. Currently, state licensed marijuana businesses are assessed a comparatively high effective federal tax rate due to section 280E which bars businesses from deducting all expenses except their 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.

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.