MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND THE THREE MONTHS ENDED MARCH 31, 2019

*This management discussion and analysis ("**MD&A**") of the financial condition and results of operations of Cresco Labs, LLC (the "**Company**" or "**Cresco**") is for the three months ended March 31, 2019 and for the three months ended March 31, 2018. It is supplemental to, and should be read in conjunction with, the Company's audited combined financial statements and accompanying notes for the year ended December 31, 2018, and the Company's unaudited condensed interim consolidated financial statements and accompanying notes for the three months ended March 31, 2019 and three months ended March 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.

The Company has provided certain supplemental non-IFRS financial measures in this MD&A. Where the Company has provided such non-IFRS financial measures, we have also provided a reconciliation to the most comparable IFRS financial measure. These supplemental non-IFRS financial measures should not be considered superior to, as a substitute for or as an alternative to, and should only be considered in conjunction with, the IFRS financial measures presented herein. Please see the information under the header "Non-IFRS Financial Measures" for additional information the Company's use of non-IFRS financial measures and the reasons therefor.

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 the Company's Annual Information Form for the year ended December 31, 2018, filed on SEDAR. 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 89.9% 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 IL holds a pending 100% interest in an operating company, Gloucester Street Capital, LLC ("**GSC**").

- Cresco IL 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, one manufacturing and dispensary location in Arizona, and one processing center in Maryland. 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 Suite 110, 400 W. Erie St, Chicago, IL 60654 and employs over 835 people, while being voted a finalist for "Best Places to Work" by Crain's Chicago Business in 2019.

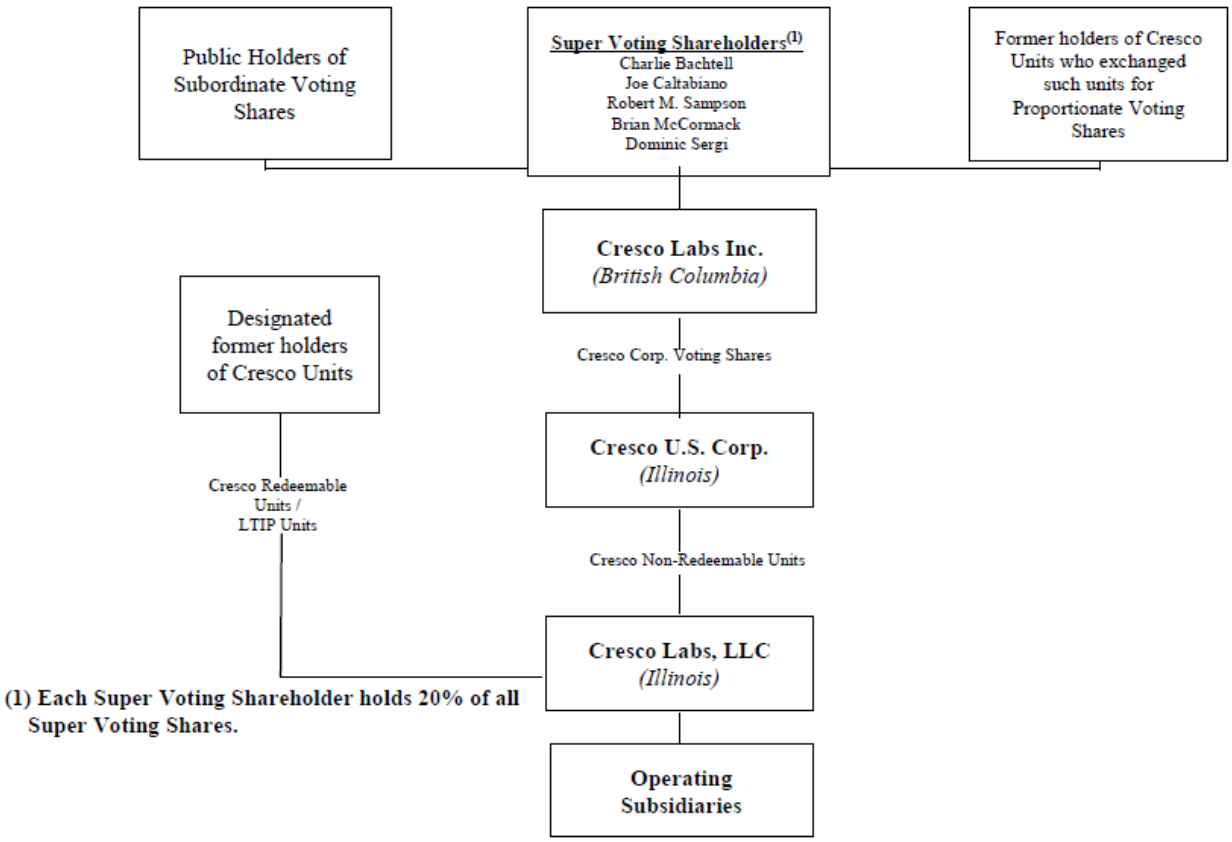
Issuing IPO, Reverse Takeover & Corporate Structure

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 Suite 110, 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.



Recent Developments

On April 26, 2019, the Company announced that it filed and received a receipt for a preliminary short form base shelf prospectus (the "Shelf Prospectus") with the securities commissions in each of the provinces of Canada, except Québec. The Shelf Prospectus, when made final, will allow the Company to offer up to C$500,000,000 of subordinate voting shares, debt securities, subscription receipts, warrants, and units, or any combination thereof, from time to time during the 25-month period that the (final) Shelf Prospectus is effective. The Company filed this Shelf Prospectus in order to maintain financial strength and flexibility going forward but has not entered into any agreements or arrangements to authorize or offer any securities at this time. The specific terms of any future offering of securities, including the use of proceeds from any offering, will be established in a prospectus supplement to the Shelf Prospectus, which supplement will be filed with the applicable Canadian securities regulatory authorities.

On May 28, 2019, the Company announced that shareholders representing 205,172,192 common shares (the Shareholders") have entered into voluntary lock-up agreements with the Company (the "Agreements"), representing 97% of the shares subject to an initial lock-up and 80% of total issued subordinate voting shares (on an as-if converted basis). Included among the Shareholders are all of the Company's founders, its entire executive management team and board of directors, as well as several of the largest outside investors in Cresco. The voluntary lock-up Agreements stipulate that these shareholders will not, subject to limited exception, offer to sell, contract to sell, lend, pledge or otherwise dispose of any Cresco securities, or enter into any transaction to such effect, directly or indirectly, in addition to other restrictions until December 3rd, 2019 when a portion of the shares will be released followed by the remainder of the shares being released by June 3, 2020.

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

Canadian-Securities Administrators Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352") provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

In accordance with Staff Notice 51-352, Cresco will evaluate, monitor and reassess the disclosure contained herein, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation. As a result of Cresco's operations, it is subject to Staff Notice 51-352 and accordingly provides the following disclosure.

Cresco currently directly derives a substantial portion of its revenues from the cannabis industry in certain U.S. states, which industry is illegal under U.S. Federal Law. The Company is directly involved (through licensed subsidiaries) in both the adult-use and medical cannabis industry in the States of Illinois, Pennsylvania, Ohio, Nevada, Arizona, Maryland, and California, as permitted within such states under applicable state law which states have regulated such industries, and is in the process of acquiring businesses and investments which would allow the Company to directly participate in the adult-use and medical cannabis industry in the States of New York, Massachusetts, Florida and Nevada, as permitted within such states under applicable state law and which states have regulated such industries.

The cultivation, sale and use of cannabis is illegal under federal law pursuant to the U.S. Controlled Substance Act of 1970 (the "CSA"). Under the CSA, the policies and regulations of the United States Federal Government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the Cole Memo (as defined herein). With the Cole Memo rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law. If the Department of Justice policy was to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Company could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, and (ii) the arrest of its employees, directors, officers, managers and investors, who could face charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to state- licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis. Additionally, as has recently been affirmed by U.S. Customs and Border Protection, employees, directors, officers, managers and investors of the Company who are not U.S. citizens face the risk of being barred from entry into the United States for life.

Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current U.S. federal law. If the U.S. federal government begins to enforce U.S. federal

laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Company's business, results of operations, financial condition and prospects would be materially adversely affected.

Despite the current state of the federal law and the CSA, the States of California, Nevada, Massachusetts, Maine, Michigan, Washington, Oregon, Colorado, Vermont and Alaska, and the District of Columbia, have legalized recreational use of cannabis. Maine and Michigan have not yet begun recreational cannabis commercial operations. In early 2018, Vermont became the first state to legalize recreational cannabis by passage in a state legislature, but does not allow commercial sales of recreational cannabis. Although the District of Columbia voters passed a ballot initiative in November 2014, no commercial recreational operations exist because of a prohibition on using funds for regulation within a federal appropriations amendment to local District spending powers.

In addition, over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis, provided that there are strict limits on the levels of THC. However, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions.

The Company's objective is to capitalize on the opportunities presented as a result of the changing regulatory environment governing the cannabis industry in the United States. Accordingly, there are a number of significant risks associated with the business of the Company. Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, and the business of the Company may be deemed to be producing, cultivating, extracting, or dispensing cannabis or aiding or abetting or otherwise engaging in a conspiracy to commit such acts in violation of federal law in the United States.

For these reasons, the Company's investments in the United States cannabis market may subject the Company to heightened scrutiny by regulators, stock exchanges, clearing agencies and other Canadian authorities. There are a number of risks associated with the business of the Company. See the section entitled "Market Risk" herein and the sections entitled "United Stated Industry Background and Trends" "United States Regulatory Environment" "State Level U.S. Cannabis Operations" and "Risk Factors" in Cresco's Annual Information Form dated May 9, 2019.

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

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

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

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

Cresco 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 1, 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.

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.

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 as four (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 or third quarter of 2019, subject to receipt of applicable regulatory approvals.

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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.

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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 (7) 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, for the three months ended March 31, 2019, represents approximately 55% of our revenue. Revenue from retail dispensary locations for the three months ended March 31, 2019 represents the remaining 45%.

Gross Profit

Gross profit is calculated as Revenue less Cost of Sales – Production Costs, 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 Sales – Production Costs includes the direct costs attributable to the production of the products sold in a company and is 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 mainly of salary and benefits costs of executive and back office staff, consulting and professional fees, such as legal and accounting, share based compensation, advertising and marketing, and excise taxes.

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

For the three months ended March 31, 2019 and March 31, 2018, selling, general and administrative expenses were comprised of the following:

	Three Months Ended March 31,	
($ in thousands)	**2019**	**2018**
Salaries and Related	$ 4,251	$ 757
Consulting and Professional Fees	3,368	278
Share Based Compensation	2,877	20
Advertising and Marketing	2,290	303
Excise Taxes	729	290
Office	597	114
Travel and Entertainment	520	114
Rent	139	88
Listing Expense	32	-
Other	1,970	100
Total	$ 16,773	$ 2,064

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.

Non-IFRS Financial Measures

Operational gross profit and Adjusted EBITDA are non-IFRS measures and do not have standardized definitions under IFRS. The following information provides reconciliations of the supplemental non-IFRS financial measures, presented herein to the most directly comparable financial measures calculated and presented in accordance with IFRS. The Company has provided the non-IFRS financial measures, which are not calculated or presented in accordance with IFRS, as supplemental information and in addition to the financial measures that are calculated and presented in accordance with IFRS. These supplemental non-IFRS financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believe that the supplemental non-IFRS financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. These supplemental non-IFRS financial measures should not be considered superior to, as a substitute for or as an alternative to, and should only be considered in conjunction with, the IFRS financial measures presented herein.

SELECTED FINANCIAL INFORMATION

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

The following table sets forth selected combined financial information for the periods indicated that was derived from our audited combined financial statements and 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:

	Three Months Ended March 31,	
($ in thousands)	**2019**	**2018**
Revenue	$ 21,055	$ 5,093
Cost of Sales - Production Costs	(14,714)	(4,783)
Realized Changes in Fair Value of Inventory Sold	(15,895)	(3,689)
Unrealized Gain on Changes in Fair Value of Biological Assets	20,206	10,161
Gross Profit (Loss)	10,652	6,782
Total Expenses	17,746	2,103
Total Other Expense, Net	(517)	(22)
Income Tax (Expense) Recovery	37	-
Net (Loss) Income	(7,574)	4,657
Net (Loss) Income Attributed to Controlling Interest	(6,227)	3,672

The following table provides a reconciliation of the Company's Gross Profit to Operational Gross Profit (non-IFRS):

	Three Months Ended March 31,	
($ in thousands)	**2019**	**2018**
Revenue	$ 21,055	$ 5,093
Cost of Sales - Production Costs[1]	(14,714)	(4,783)
Realized Changes in Fair Value of Inventory Sold	(15,895)	(3,689)
Unrealized Gain on Changes in Fair Value of Biological Assets	20,206	10,161
Gross Profit	10,652	6,782
Cultivation Costs Expensed Under IAS 41[2]	3,043	(981)
Net Impact of Fair Value of Biological Assets	(4,311)	(6,472)
Operational Gross Profit (Loss) (Non-IFRS)	$ 9,384	$ (671)
Operational Gross Profit % (Non-IFRS)	44.6%	-13.2%

[1] Production (cultivation, manufacturing and processing) costs related to products sold during the period.
[2] Costs would be capitalized under IAS 2 and do not reflect cost of inventory sold in the period.

The following table provides a reconciliation of the Company's Net Income (Loss) to Adjusted EBITDA (non-IFRS):

	Three Months Ended March 31,	
($ in thousands)	**2019**	**2018**
Net Income (Loss)[1]	$ **(7,574)**	$ **4,657**
Depreciation and Amortization	2,286	298
Other Income/Expense, Net	134	13
Interest Income/Expense, Net	419	9
Shares of Income from Investment in Associates	(36)	-
Income Tax	(37)	-
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) (Non-IFRS)	**$ (4,808)**	**$ 4,977**
Adjustments for RTO and Acquisitions (Non-IFRS)	2,458	-
Management Incentive Compensation (Share Based)	3,168	62
Adjusted EBITDA (Non-IFRS)	**$ 818**	**$ 5,039**

[1] Net income (loss) includes amounts attributable to non-controlling interest.

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Revenue

Revenue for the three months ended March 31, 2019 was $21,055 thousand, an increase of $15,962 thousand, or 313%, compared to revenue of $5,093 thousand for the three months ended March 31, 2018. The increase in revenue was driven by expansion into new markets and gains in market share in the states where the Company operates.

Cost of Sales – Production Costs, Gross Profit, and Operational Gross Profit (non-IFRS)

Cost of Sales – Production Costs for the three months ended March 31, 2019 was $14,714 thousand, an increase of $9,931 thousand compared to Cost of Sales – Production Costs of $4,783 thousand for the three months ended March 31, 2018. The increase was primarily attributable to increased cultivation capacity in the Illinois and Pennsylvania markets, the SLO asset acquisition in June 2018, and the acquisition of AFS in November 2018. This also included net cultivation costs which were immediately expensed under the Company's accounting policy for biological assets of $3,043 thousand and ($981) thousand in the three months ended March 31, 2019 and 2018, respectively. Gross profit increased primarily due to the increase in revenues from the prior-year period, partially offset by a lower benefit from biological assets accounting.

Operational Gross profit for the first quarter of 2019, a non-IFRS measure which excludes the impact of biological assets accounting and cultivation costs immediately expensed, as discussed above, was $9,384 thousand, compared to an operational gross loss of $671 thousand for the prior-year. Operational gross profit reflects revenue less costs related to products sold in the period. The increase of $10,055 thousand from the prior year was primarily driven by the Company's organic growth in existing markets as well as the addition of acquisitions during 2018. Operational gross profit percentage of approximately 45% was higher when compared with the prior year due to operational efficiencies in the Company's established markets, partially offset by the impact of new markets like Ohio, California and Arizona, where the Company expects margin expansion as these operations scale.

Total Expenses

Total expenses for the three months ended March 31, 2019 were $17,746 thousand, an increase of $15,643 thousand compared to total expenses of $2,103 thousand for the three months ended March 31, 2018. The increase in total expenses was attributable to increases in share-based incentive compensation, acquisition and other non-recurring costs, depreciation and amortization, as well as significant investments in our team and operational infrastructure to drive strategic initiatives that better position the Company for future growth.

Total Other Income (Expense)

Total other expense for the three months ended March 31, 2019 was $517 thousand, an increase of $495 thousand compared to total other expense of $22 thousand for the three months ended March 31, 2018. The increase in total other expense was primarily due to interest expense as a result of adopting IFRS 16, *Leases*.

Provision for Income Taxes

Income tax recovery for the three months ended March 31, 2019 was $37 thousand (March 31, 2018: nil).

Net Income (Loss) and Adjusted EBITDA (non-IFRS)

Net loss for the three months ended March 31, 2019 was $7,574 thousand, compared to net income of $4,657 thousand for the three months ended March 31, 2018. The decrease in net income attributable to controlling interest was driven by expansion into new markets and investments in the Company's team and operational infrastructure to drive strategic initiatives that better position the Company for future growth, as well as a lower benefit from biological assets than the prior-year period.

Adjusted EBITDA, a non-IFRS measure which excludes non-cash items such as depreciation and amortization, net interest expense, income taxes, as well as share-based compensation and acquisition and other non-recurring costs, was $818 thousand and $5,039 thousand for the three months ended March 31, 2019 and three months ended March 31, 2018, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Overview

As of March 31, 2019, the Company held $106,090 thousand in cash and cash equivalents, $7,311 thousand in restricted cash, and $146,338 thousand of working capital (current assets minus current liabilities) compared to December 31, 2018, where we held $131,302 thousand in cash and cash equivalents, $6,726 thousand in restricted cash, and $167,474 thousand of working capital (current assets minus current liabilities). The decrease of $21,136 thousand in working capital was primarily due to capital expenditures of $11,959 thousand and the addition of a short-term lease liability upon adoption of IFRS 16, *Leases*.

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 $6,681 thousand for the three months ended March 31, 2019, an increase of $5,722 thousand compared to $959 thousand for the three months ended March 31, 2018. The increase in net cash used in operating activities was primarily due to decreased net income partially offset by lower operational working capital requirements.

Investing Activities

Net cash used in investing activities was $17,483 thousand for the three months ended March 31, 2019, an increase of $5,189 thousand compared to $12,294 thousand used in investing for the three months ended March 31, 2018. The increase in net cash used in investing activities was primarily due to increases in purchases of property and equipment as the Company continues to expand its operations.

Financing Activities

Net cash used for financing activities was $463 thousand for the three months ended March 31, 2019, a decrease of $3,591 thousand compared to $3,128 thousand of cash provided by financing activities for the three months ended March 31, 2018. The decrease in net cash provided by financing activities was primarily due to share issuances in the first quarter of 2018 which did not recur in 2019 and an increase in the principal payments of leases for the Company's adoption of IFRS 16, *Leases*.

CONTRACTUAL OBLIGATIONS

As of March 31, 2019, maturities of operating lease liabilities were as follows:

($ in thousands)		
2019	$	5,829
2020		7,452
2021		6,777
2022		6,921
2023		7,051
Thereafter		125,783
Total Lease Payments	**$**	**159,813**

In addition to the future minimum rentals disclosed above, the Company is responsible for real estate taxes and common 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

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. Aside from management personnel compensation for the three months ended March 31, 2019, there were no material transactions with or changes to other related party balances relative to the period ended December 31, 2018. Key management personnel compensation for the three months ended March 31, 2019 and March 31, 2018 are as follows:

	Three Months Ended March 31,	
($ in thousands)	**2019**	**2018**
Management Compensation	$ 460	$ 495
Stock Compensation Expense	983	5
Total	**$ 1,443**	**$ 500**

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

The unaudited condensed interim consolidated financial statements are presented in United States dollars and are prepared in accordance with the same accounting policies, critical estimates and methods described in the Company's annual consolidated financial statements, except for the change in accounting policy as a result of adopting IFRS 16, *Leases*.

The preparation of the Company's unaudited condensed interim consolidated financial statements under IFRS requires management to make judgements, estimates, and assumptions about the carrying amounts of certain assets and liabilities. Estimates and related assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis for reasonableness and relevancy. Where revisions are required, they are recognized in the period in which the estimate is revised as well as future periods that are affected.

Significant judgements, estimates and assumptions within these condensed interim consolidated financial statements, unless stated herein, remain the same as those applied to the consolidated financial statements for the year ended December 31, 2018.

However, the adoption of IFRS 16, *Leases,* required the Company to assess its significant judgements and certain key estimates when applying the standard.

Critical judgments required in the application of IFRS 16 include the following:

a. Identifying whether a contract or part of contract includes a lease;
b. Identifying lease components and allocating the consideration to each lease component on the basis of the relative stand-alone price of each lease component;
c. Determining whether it is reasonably certain that an extension or termination option will be exercised; and

d. Establishing whether there are multiple leases in an arrangement.

Key sources of estimation uncertainty in the application of IFRS 16 include the following:

a. Estimating the lease term;
b. Determine the appropriate rate to discount lease payments; and
c. Assessing whether a right-of-use ("ROU") asset is impaired.

Unanticipated changes in these judgments or estimates could affect the identification and determination of the fair value of lease liabilities and ROU assets at initial recognition, as well as the subsequent measurement of lease liabilities and ROU assets. These items could potentially result in changes to amounts reported in the Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and the Consolidated Statements of Financial Position.

In January 2016, the IASB replaced IAS 17, *Leases*, in its entirety with IFRS 16, *Leases*. The Company adopted IFRS 16 on January 1, 2019, retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application, without restating prior periods. As a result, the Company has changed its accounting policy for lease contracts as detailed below.

The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires a lessee to record a ROU asset and a lease liability on the balance sheet for all finance and operating leases, including additional qualitative and quantitative disclosures. The lease liability is initially measured at the present value of the lease payments payable over the lease term and discounted using a collateralized incremental borrowing rate. The ROU asset is initially measured at the amount of the lease liability, adjusted for lease prepayment, lease incentives received, and the lessee's initial direct costs. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments, or if the Company changes its assessment of whether it will exercise an extension or termination option. The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of useful life of the ROU asset or the end of the lease term. The estimated useful lives of the ROU assets are determined on the same basis as those of property and equipment. In addition, the ROU assets are periodically reduced by impairment losses, if any, and adjusted for certain measurements of the lease liability.

Upon transition, the Company elected to apply the practical expedient where the Company is not required to reassess whether a contract is, or contains, a lease at the date of initial application. As a result, the Company applied IFRS 16 to contracts that were previously identified as leases. The Company also used the portfolio approach when determining the incremental borrowing rate at transition and did not transition leases for which the lease term ends within twelve months of the date of initial application (January 1, 2019).

For leases with commencement dates of January 1, 2019 or later, the Company adopted the recognition exemptions permitted for short-term leases (leases with durations of twelve months or less), resulting in the lease payments recognized on a straight-line basis over the lease term.

The Company determines the probability of exercising a renewal or cancellation option at the commencement date, when determining the lease term, by considering economic and operating factors.

Upon transition, the Company recognized a lease liability for leases previously classified as an operating lease under IAS 17, and measured the liability at the present value of the remaining lease payments, discounted using an incremental borrowing rate, adjusted for collateralization. The Company selected on a lease-by-lease basis to measure the ROU asset as either (1) an amount equal to the lease liability adjusted for accrued lease payments or (2) its carrying amount as if IFRS 16 had been applied since the commencement date and discounted using the incremental borrowing rate at the initial application date of January 1, 2019. The Company did not identify initial direct costs to include in the ROU asset. In addition, the Company's lease payments are fixed, not variable.

The following is a summary of the amounts recognized or adjusted due to the adoption of IFRS 16 increase (decrease):

($ in thousands)	**As of January 1, 2019**
ROU Asset	$ 45,315
Lease Liabilities	50,196
Deferred Rent Liability	(2,196)
Deferred Tax Liability	(322)
Accumulated Deficit*	(837)
Non-Controlling Interest	(1,526)

* The cumulative effect adjustment to accumulated deficit was a result of measuring the ROU asset for certain leases as if IFRS 16 had been applied since their respective commencement dates.

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations, Definition of Business.* The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. It also narrowed the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs and removed the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments added an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed. The Company is currently evaluating the impact of this standard.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments are held at amortized cost (adjusted for impairments or expected credit losses, as applicable) or FVTPL. The carrying values of financial instruments held at amortized cost approximate their fair values as of March 31, 2019 and December 31, 2018 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 March 31, 2019 and December 31, 2018:

($ in thousands)	March 31, 2019	December 31, 2018
Financial Assets:		
Cash and Cash Equivalents	$ 106,090	$ 131,302
Restricted Cash	7,311	6,726
Accounts Receivable	5,334	3,658
Loans Receivable, Short-Term	12,413	7,726
Loans Receivable, Long-Term	8,010	7,280
Security Deposits	1,434	1,363
Financial Liabilities:		
Accounts Payable and Other Accrued Expenses	$ 13,941	$ 7,595
Income Taxes Payable	3,447	2,584
Lease Liabilities	5,846	-
Deferred Consideration and Other Payables	13,617	14,873
Derivative Liability	178	178
Derivative Liabilities - Long-Term	381	146
Lease Liabilities - Long-Term	43,768	-
Contingent Consideration	3,138	3,096

(a) Short-Term Loans Receivable

The following is a summary of short-term loans receivable balances and IFRS 9 classifications (discussed further below) as of March 31, 2019 and December 31, 2018:

($ in thousands)	IFRS 9 Classification	March 31, 2019	December 31, 2018
Short-Term Loans Receivable – Lighthouse (i)	FVTPL	$ 6,648	$ 6,648
Short-Term Loans Receivable – HHH (ii)	Amortized Cost	1,459	314
Short-Term Loans Receivable – Valley Agriceuticals (ii)	Amortized Cost	3,916	678
Interest Receivable	Amortized Cost	390	86
Total Short-Term Loans Receivable		$ **12,413**	$ **7,726**

(i) Short-Term Loans Receivable with Derivative Features

In conjunction with its agreement to purchase Lighthouse Strategies, LLC ("Lighthouse"), the Company entered into an escrow and loan arrangement, with certain embedded derivative. In the first quarter of 2018, the Company paid approximately $5,500 thousand. The Company also transferred 500,000 Class E Units to be issued upon closing, valued at approximately $568 thousand, which are held in escrow until certain contingent events occur and recorded as shares to be issued. 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 (19.5%) and expected settlement timing (2 to 6 months). There has been no change in the fair value as of March 31, 2019. This instrument is expected to be settled during the second quarter of 2019.

(ii) Other Short-Term Loans Receivable

In conjunction with its agreements to acquire Hope Heal Health, Inc. ("HHH") and Valley Agriceuticals, LLC ("Valley Agriceuticals"), the Company entered into certain non-derivative loan arrangements, which are measured at amortized cost. The loan arrangement with HHH allows for a maximum draw of $2,618 thousand. The loan arrangement with Valley Agriceuticals allowed a maximum draw of $3,000 thousand through December 31, 2018 and increased to $5,000 thousand subsequent to December 31, 2018. The following is a summary of the balances as of March 31, 2019 and December 31, 2018:

($ in thousands)	**March 31, 2019**	**December 31, 2018**
Short-Term Notes Receivable – HHH	$ 1,459	$ 314
Short Term Notes Receivable – Valley Agriceuticals	3,916	678
Total Other Short-Term Loans Receivable	**$ 5,375**	**$ 992**

Expected Credit Loss (ECL)

The Company calculates ECLs for loan receivables and restricted cash by considering cash shortfalls on a discounted basis it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring, which is determined through the exercise of judgment. The Company has assessed the impairment of loan receivables and restricted cash using the ECL model and concluded no impairment loss has occurred as of March 31, 2019 and December 31, 2018.

(b) Loans Receivable, Long-Term

The Company entered into certain loan arrangements that contained embedded derivatives comprising of a call and put option and a stated interest rate of 5.25%. Settlement of the instruments varies based on contingent events and returns are not fixed. As such, the Company records this loan receivable at FVTPL. Each period, the loan is measured using a probability-weighting analysis of expected outcomes, which utilize Level 3 inputs. The inputs include market rates ranging from 6.2% to 20.0%, a risk-free rate of 2.5% and expected settlement timing of two years. As the fair value was based on Level 3 inputs and resulted in a day one gain that did not arise from a change in factor that market participants would take into account when pricing the instruments, the difference between the fair value and the transaction price was deferred. At March 31, 2019, of the $14,500 thousand maximum loan commitment, $8,010 thousand had been drawn on these loans. No change to assumptions or fair value have occurred during the three months ended March 31, 2019.

(c) Derivative Liability

In conjunction with its acquisition of PDI, the Company recorded a derivative liability of $178 thousand at the acquisition date for a non-controlling interest ("NCI") put option, by which the remaining NCI could put their shares for a fixed amount of cash within one year of the acquisition legal close/funding date (April 2020). The derivative was valued using a discount rate of 9%. There was no change in fair value of this investment in the three months ended March 31, 2019.

(d) Stock Purchase Warrants

At March 31, 2019, of the 397,079 warrants outstanding, 53,325 non-brokered warrants (measured at FVTPL) were classified as a long-term derivative liability with a fair value of $381 thousand, resulting in an unrealized loss of $235 thousand for the three months ended March 31, 2019. No warrants were exercised during the three months ended March 31, 2019. The fair value of non-brokered warrants issued was determined using the Black-Scholes option-pricing model utilizing the following assumptions:

	March 31, 2019	December 31, 2018
Risk-free Annual Interest Rate	1.25%	1.25%
Expected Annual Dividend Yield	0%	0%
Expected Stock Price Volatility	90%	90%
Expected Life of Stock Options	1 year	1 year
Forfeiture Rate	0%	0%
Share Price	$11.25	$6.75

The following is a summary of the long-term derivative liability as of March 31, 2019 and December 31, 2018:

($ in thousands)	March 31, 2019	December 31, 2018
Derivative liabilities – long-term, beginning of period	$ 146	$ -
Addition	-	146
Unrealized loss on changes in fair value	235	-
Derivative liabilities – long-term, end of period	**$ 381**	**$ 146**

(e) Contingent Consideration

In conjunction with its acquisition of MedMar, the Company recorded a non-current liability for contingent consideration with a fair value of $3,096 thousand as of December 31, 2018. Fair value was determined utilizing a discount rate of 10.8% over a period of 2.5 years. The following is a summary of the non-current contingent consideration liability as of March 31, 2019 and December 31, 2018:

($ in thousands)	IFRS 9 Classification	March 31, 2019	December 31, 2018
MedMar Contingent Consideration Liability for Tax Payments - Non-Current	FVTPL	$ 2,000	$ 2,000
MedMar Contingent Consideration Liability	FVTPL	1,138	1,096
Total Contingent Consideration		$ **3,138**	**$ 3,096**

The Company recorded a loss on changes in fair value of contingent consideration of $42 thousand for the three months ended March 31, 2019. A summary of the MedMar contingent consideration liability is as follows:

($ in thousands)	March 31, 2019	December 31, 2018
MedMar contingent consideration liability, beginning of period	$ 1,096	$ -
Additions from acquisition	-	1,096
Unrealized loss on changes in fair value	42	-
MedMar Contingent Consideration Liability, end of period	**$ 1,138**	**$ 1,096**

(f) Deferred Consideration and Other Payables

The following is a summary of deferred consideration and other payables balances as of March 31, 2019 and December 31, 2018:

($ in thousands)	IFRS 9 Classification	March 31, 2019	December 31, 2018
MedMar Deferred Consideration	Amortized Cost	$ 7,231	$ 7,231
PDI Deferred Consideration	Amortized Cost	4,803	4,803
SLO Deferred Consideration	Amortized Cost	625	1,500
MedMar Contingent Tax Consideration Liability - Current	FVTPL	343	700
MedMar Notes Payable	Amortized Cost	339	345
PDI Contingent Tax Consideration Liability - Current	FVTPL	276	294
Total Deferred Considerations and Other Payables		**$ 13,617**	**$ 14,873**

In conjunction with the acquisitions of MedMar and PDI, the Company recorded a current liability of $994 thousand for contingent tax considerations, subsequently measured at FVTPL, within deferred consideration and other payables as of December 31, 2018. During the three months ended March 31, 2019, the Company made $375 thousand in payments. No other changes in assumptions or rates have occurred. The following is a summary of current contingent tax consideration liability as of March 31, 2019 and December 31, 2019:

($ in thousands)	March 31, 2019	December 31, 2018
Contingent tax consideration liability - current, beginning of period	$ 994	$ -
Additions from acquisition	-	994
Payments	(375)	-
Contingent tax consideration liability - current, end of period	**$ 619**	**$ 994**

(g) 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:

i. 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 March 31, 2019 and December 31, 2018 is the carrying amount of cash, accounts receivable and loans receivable. The Company does not have significant credit risk with respect to its customers or loan counterparties, based on the continued economic strength of the U.S., including steady GDP growth, low unemployment, strength in the U.S. capital markets, and the low interest rate environment. Although all deposited cash is placed with U.S. financial institutions in good standing with regulatory authorities, there has been no change in the U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from business involved with the cannabis industry.

The Company's aging of accounts receivables as of March 31, 2019 and December 31, 2018 was approximately as follows:

($ in thousands)	**March 31, 2019**	**December 31, 2018**
0 to 60 days	$ 5,031	$ 3,469
61 to 120 days	320	181
120 days +	123	28
Total Accounts Receivable	**$ 5,474**	**$ 3,678**

The Company recorded bad debt expense of $120 thousand and $0 thousand for the three months ended March 31, 2019 and 2018, respectively, to account for expected credit loss.

ii. 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.

iii. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. The maturity analysis for lease obligations is located at Note 7.

In addition to the commitments outlined in Note 7, the Company has the following contractual obligations as of March 31, 2019:

($ in thousands)	< 1 Year	1 to 3 Years	3 to 5 Years	Total
Accounts Payable & Other Accrued Expenses	$ 13,941	$ -	$ -	$ 13,941
Deferred Consideration and Other Payables	13,617	-	-	13,617
Contingent Consideration	-	3,138	-	3,138
Total Obligation as of March 31, 2019	$ 27,558	$ 3,138	$ -	$ 30,696

The Company had the following contractual obligations as of December 31, 2018:

($ in thousands)	< 1 Year	1 to 3 Years	3 to 5 Years	Total
Accounts Payable & Other Accrued Expenses	$ 7,595	$ -	$ -	$ 7,595
Deferred Consideration and Other Payables	14,873	-	-	14,873
Contingent Consideration	-	3,096	-	3,096
Total Obligation as of December 31, 2018	$ 22,468	$ 3,096	$ -	$ 25,564

iv. Market Risk

a. Currency Risk

The operating results and financial position of the Company are reported in U.S. dollars. As of March 31, 2019 and December 31, 2018, the Company's financial assets and liabilities are denominated solely in U.S. dollars. However, from time to time 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. The Company did not record any foreign exchange gain or loss in the three months ended March 31, 2019 or March 31, 2018.

As of March 31, 2019 and 2018, 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.

b. 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 March 31, 2019 or December 31, 2018.

c. Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company maintains an immaterial amount of investments subject to price risk.

d. Tax Risk

Tax risk is the risk of changes in the tax environment that would have a material adverse effect on the Company's business, results of operations, and financial condition. Currently, state licensed marijuana businesses are assessed a comparatively high effective federal tax rate due

to section 280E which bars businesses from deducting all expenses except their cost of sales 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.

e. 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.