CRESCO LABS INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(Expressed in United States Dollars)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS:

Cresco Labs Inc.
Condensed Interim Consolidated Statements of Financial Position
As of September 30, 2019 and December 31, 2018
(In thousands of United States Dollars)

		(Unaudited) September 30, 2019	December 31, 2018
ASSETS			
Current assets:			
Cash and cash equivalents		$ 73,658	$ 131,302
Restricted cash		8,094	6,726
Accounts receivable, net	*Note 3*	14,087	3,658
Biological assets	*Note 4*	27,085	17,673
Inventory, net	*Note 5*	47,920	24,521
Loans receivable, short-term	*Note 15*	16,083	7,726
Other current assets		3,376	1,098
Total current assets		190,303	192,704
Non-current assets:			
Property and equipment, net	*Note 6*	87,084	39,721
Right-of-use assets	*Note 7*	41,937	-
Intangible assets, net	*Note 9*	26,850	25,464
Loans receivable, long-term	*Note 15*	13,283	7,280
Investments	*Note 8*	4,445	433
Security deposits		1,465	1,363
Goodwill	*Note 9*	51,159	51,146
Total non-current assets		226,223	125,407
TOTAL ASSETS		**$ 416,526**	**$ 318,111**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Current liabilities:			
Accounts payable and other accrued expenses	*Note 10*	$ 24,590	$ 7,595
Income tax payable		10,682	2,584
Current portion of lease liabilities		6,206	-
Deferred consideration and other payables	*Note 15*	4,090	14,873
Derivative liabilities	*Note 15*	178	178
Total current liabilities		45,746	25,230
Long-term liabilities:			
Deferred rent		-	2,199
Derivative liabilities – long-term	*Note 15*	5,580	146
Lease liabilities		43,926	-
Deferred tax liability	*Note 19*	6,023	4,459
Contingent consideration	*Note 15*	-	3,096
Total long-term liabilities		55,529	9,900
TOTAL LIABILITIES		**101,275**	**35,130**
SHAREHOLDERS' EQUITY:			
Share capital	*Note 11*	224,970	162,182
Contributed surplus	*Note 12*	23,019	11,594
Accumulated deficit		(85,679)	(52,745)
Equity of Cresco Labs Inc.	*Note 11, 12*	162,310	121,031
Non-controlling interests	*Note 11*	152,941	161,950
TOTAL SHAREHOLDERS' EQUITY		**315,251**	**282,981**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 416,526**	**$ 318,111**

Nature of Operations *(Note 1)*
Subsequent Events *(Note 20)*

See accompanying notes to unaudited condensed interim consolidated financial statements.

Cresco Labs Inc.
Condensed Interim Consolidated Statements of Operations and Comprehensive Income/(Loss)
For the Three and Nine Months Ended September 30, 2019 and 2018
(Unaudited - In thousands of United States Dollars, except per share data)

		(Unaudited) Three months ended September 30,		(Unaudited) Nine months ended September 30,	
		2019	2018	2019	2018
Revenue, net	*Note 2(e)*	$ 36,207	$ 12,729	$ 87,152	$ 26,295
Costs of sales - production costs	*Note 4, 5*	(23,369)	(6,723)	(55,228)	(17,469)
Gross profit before fair value adjustments		12,838	6,006	31,924	8,826
Realized changes in fair value of inventory sold	*Note 5*	(22,908)	(8,731)	(56,423)	(17,586)
Unrealized gain on changes in fair value of biological assets	*Note 4*	30,910	15,340	80,930	32,955
Gross profit		20,840	12,615	56,431	24,195
Expenses:					
Selling, general and administrative	*Note 13*	25,474	11,415	61,952	16,575
Depreciation and amortization	*Note 6, 7, 9*	991	151	2,858	283
Total expenses		26,465	11,566	64,810	16,858
Gain (loss) before other (expenses) income and income taxes		(5,625)	1,049	(8,379)	7,337
Other (expense) income:					
Interest expense, net	*Note 18*	(1,094)	(4)	(3,600)	(21)
Other income, net	*Note 14*	2,714	156	1,959	548
Income (loss) from investment in associate		35	35	107	(359)
Total other income (expense), net		1,655	187	(1,534)	168
(Loss) earnings before income taxes		(3,970)	1,236	(9,913)	7,505
Income tax expense	*Note 19*	(4,624)	-	(10,173)	-
Net (loss) income and comprehensive (loss) income		$ (8,594)	$ 1,236	$ (20,086)	$ 7,505
Net (loss) income and comprehensive (loss) income attributable to non-controlling interests, net of tax	*Note 11*	(1,634)	2,136	(4,873)	4,816
Net (loss) income and comprehensive (loss) income attributable to Cresco Labs Inc.		**$ (6,960)**	**$ (900)**	**$ (15,213)**	**$ 2,689**
Net (loss) income per share - attributable to Cresco Labs Inc. shareholders					
(Loss) earnings per share - Basic	*Note 16*	$ (0.06)	$ (0.02)	$ (0.13)	$ 0.06
(Loss) earnings per share - Diluted	*Note 16*	$ (0.06)	$ (0.02)	$ (0.13)	$ 0.01

See accompanying notes to unaudited condensed interim consolidated financial statements.

Cresco Labs Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2019 and 2018
(Unaudited - In thousands of United States Dollars)

	Notes	$ Amount					
		Share capital	Shares to be issued	Contributed surplus	Accumulated deficit	Non-controlling interests	Total
Balance as of December 31, 2018		142,118	20,064	11,594	(52,745)	161,950	282,981
Cumulative effect of adoption of new accounting pronouncement IFRS 16 *Leases*	*Note 2(f)*	-	-	-	(1,466)	(1,526)	(2,992)
Exercise of options	*Note 11, 12*	883	-	(239)	-	-	644
Exercise of warrants	*Note 11(d), 15*	1,674	-	(429)	-	-	1,245
Equity-based compensation expense	*Note 12*	-	-	12,128	-	-	12,128
Change in ownership interest	*Note 11(g)*	-	-	-	(438)	(395)	(833)
Income tax reserve	*Note 19*	-	-	(35)	320	-	285
Issuance of shares related to MedMar	*Note 11(e)*	19,497	(19,497)	-	-	-	-
Distributions to limited liability company unit holders	*Note 11(f)*	-	-	-	(2,942)	(688)	(3,630)
Shares issued through equity raise, net of costs	*Note 11(c)*	46,076	-	-	-	-	46,076
Cresco LLC shares redeemed	*Note 11(g)*	14,722	-	-	(13,195)	(1,527)	-
Cancellation of shares	*Note 15(a)(i)*	-	(567)	-	-	-	(567)
Net loss		-	-	-	(15,213)	(4,873)	(20,086)
Ending balance, September 30, 2019		**224,970**	**-**	**23,019**	**(85,679)**	**152,941**	**315,251**
Balance as of December 31, 2017		36,958	-	655	(15,935)	14,258	35,936
May Class F equity financing	*Note 11(h)(vi)*	23,466	-	-	-	-	23,466
October Class F equity financing through September 30, 2018	*Note 11(h)(vi)*	68,257	-	-	-	-	68,257
Exercise of options	*Note 12*	257	-	(100)	-	-	157
Other unit issuances	*Note 11(h)(iv)*	339	567	-	-	-	906
Stock dividend	*Note 11(h)(iii)*	3,465	-	-	(3,465)	-	-
Equity-based compensation expense	*Note 12*	-	-	7,243	-	-	7,243
Change in ownership interest	*Note 11(v)*	51,878	-	-	(29,869)	(22,009)	-
Repayment of subscription receipt	*Note 11(h)(i)*	260	-	-	-	-	260
Non-controlling interest contribution	*Note 11(h)(ii)*	-	-	-	-	3,609	3,609
Non-controlling interest recognized in business combination	*Note 11(v)*	-	-	-	-	1,108	1,108
Net income		-	-	-	2,689	4,816	7,505
Ending balance, September 30, 2018		**184,880**	**567**	**7,798**	**(46,580)**	**1,782**	**148,447**

See accompanying notes to unaudited condensed interim consolidated financial statements.

Cresco Labs Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2019 and 2018
(Unaudited - In thousands of United States Dollars)

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (20,086)	$ 7,505
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	7,486	1,161
Bad debt expense	261	-
Share-based compensation expense	10,697	7,243
Loss from associate, net of distributions	2	353
Loss on changes in fair value of contingent consideration	815	-
Unrealized gain on investments at FVTPL	(692)	(10)
Loss on inventory write-offs	2,263	-
Gain on derivative instruments	(503)	(320)
Foreign currency loss	5	-
Realized changes in fair value of inventory sold	54,160	17,586
Unrealized gain on changes in fair value of biological assets	(80,930)	(32,955)
Change in deferred taxes	1,851	-
Changes in operating assets and liabilities:		
Accounts receivable	(11,620)	(1,429)
Inventory	(77,724)	(26,469)
Biological assets	71,518	24,815
Other current assets	(2,278)	(304)
Security deposits	(102)	(12)
Accounts payable and other accrued expenses	16,995	2,950
Other current liabilities	1,146	-
Deferred rent	-	455
Income tax payable	8,098	-
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(18,638)	569
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(50,614)	(19,023)
Purchase of investments	-	(901)
Loans receivable for entities to be acquired	(17,319)	(5,590)
Cash paid for acquisitions, net of cash acquired	(14,707)	(2,799)
Purchase of intangibles	(3,262)	(345)
NET CASH USED IN INVESTING ACTIVITIES	(85,902)	(28,658)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions to LLC unit holders	(3,630)	-
Private placement	-	91,723
Non-controlling interests contributions	-	3,609
Acquisition of non-controlling interests	(833)	-
Other share issuances	-	339
Repayment of related party payables and notes	-	(1,053)
Proceeds from exercise of stock options and warrants	1,659	157
Issuance of warrants	6,163	-
Issuance of shares	49,170	-
Issuance costs	(3,094)	-
Principal payments of leases	(1,171)	-
Cash received from subscription receivable	-	260
Subscription deposits refunded	-	(400)
NET CASH PROVIDED BY FINANCING ACTIVITIES	48,264	94,635
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(56,276)	66,546
Cash and cash equivalents and restricted cash, beginning of period	138,028	27,043
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	**$ 81,752**	**$ 93,589**

See accompanying notes to unaudited condensed interim consolidated financial statements.

Cresco Labs Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2019 and 2018
(Unaudited - In thousands of United States Dollars)

CASH PAID DURING THE PERIOD FOR:				
Income tax, net	$	15	$	-
Interest		3,588		21
NON-CASH TRANSACTIONS:				
Shares issued for acquisitions and escrows	$	-	$	567
Non-controlling interests recognized in business combinations		-		1,500
Net liability upon adoption of IFRS 16 *Leases* and subsequent additions		41,937		-
Conversion of loan to investment in associate		6,783		-

See accompanying notes to unaudited condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS

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

On November 30, 2018, in connection with a 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 classes of common shares, redesignate such classes as the class of Subordinate Voting Shares, and create the classes of Proportionate Voting Shares and the Super Voting Shares.

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

The interim 2018 comparative amounts presented in the financial statements are those of Cresco Labs, LLC.

On December 3, 2018, the Company began trading on the Canadian Securities Exchange ("CSE") under the ticker symbol "CL". On March 6, 2019, Cresco shares were approved to be quoted on the Over-the-Counter Market ("OTC") and is traded under the ticker symbol "CRLBF". On August 13, 2019, the Company began trading its Euro-dominated shares on the Frankfurt Stock Exchange ("FSE") and are trading under the symbol "6CQ."

The Company is licensed to cultivate, manufacture and sell retail and medical cannabis and retail and medical cannabis products. The Company operates in and/or has ownership interests in Illinois, Pennsylvania, Ohio, California, Maryland, and Arizona, pursuant to the Illinois Compassionate Use of Medical Cannabis Pilot Program Act, the Pennsylvania Compassionate Use of Medical Cannabis Act, the Ohio Medical Marijuana Control Program, the California Medicinal and Adult-Use Cannabis Regulation and Safety Act, the Maryland Medical Marijuana Act, and the Arizona Medical Marijuana Act, respectively. As of October 8, 2019, the Company is operating in New York. See Note 20, Subsequent Events.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The unaudited condensed interim consolidated financial statements of the Company have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, which was adopted by the International Accounting Standards Board ("IASB").

The unaudited condensed interim consolidated financial statements are presented in United States dollars and are prepared in accordance with accounting policies, consistently applied, 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*, identified in Note 2(f). The unaudited condensed interim consolidated financial statements do not include all information and disclosures required in the Company's annual consolidated financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the years ended December 31, 2018 and 2017.

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on November 27, 2019.

(b) Basis of Measurement

The accompanying unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for biological assets which are measured at fair value less cost to sell; certain investments in associates, which are accounted for under the equity method; loans receivable measured at fair value through profit or loss ("FVTPL"); and certain investments, derivative instruments, and contingent consideration, which are recorded at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets and the contractual obligation for liabilities.

(c) Basis of Consolidation

The unaudited condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. The following are Cresco's wholly owned subsidiaries and entities over which the Company has control as of September 30, 2019:

Entity	Location	Purpose	Percentage Held
Cresco Labs Inc.	British Columbia, Canada	Parent Company	
Cresco U.S. Corp.	Illinois	Manager of Cresco Labs, LLC	100%
Cresco Labs, LLC	Illinois	Operating Entity	43.7%
Cresco Labs Notes Issuer, LLC	Illinois	Holding Company	100%
MedMar Inc.	Illinois	Holding Company	100%
MedMar Lakeview, LLC	Illinois	Dispensary	87.5%
MedMar Rockford, LLC	Illinois	Dispensary	75%

Entity	Location	Purpose	Percentage Held
Cresco Labs Notes Issuer, LLC	Illinois	Holding Company	
Cresco Labs Ohio, LLC	Ohio	Cultivation, Production, and Dispensary Facility	99%
Cresco Labs SLO, LLC	California	Holding Company	100%
SLO Cultivation Inc.	California	Cultivation and Production Facility	80%
Cresco Labs Joliet, LLC	Illinois	Cultivation and Production Facility	100%
Cresco Labs Kankakee, LLC	Illinois	Cultivation and Production Facility	100%
Cresco Labs Logan, LLC	Illinois	Cultivation and Production Facility	100%
Cresco Labs PA, LLC	Pennsylvania; Registered: Illinois	Holding Company	100%
Cresco Yeltrah, LLC	Pennsylvania	Cultivation, Production, and Dispensary Facility	100%
Cresco Labs Arizona, LLC	Arizona	Holding Company	100%
Arizona Facilities Supply, LLC	Arizona/Maryland	Cultivation, Production, and Dispensary Facility	100%
Cresco Labs Tinad, LLC	Illinois	Holding Company	100%
PDI Medical III, LLC	Illinois	Dispensary	98%
Cresco Labs Phoenix Farms, LLC	Illinois	Holding Company	100%
Phoenix Farms of Illinois, LLC	Illinois	Dispensary	100%

JDC Elmwood, LLC	Illinois	Holding Company	100%
FloraMedex, LLC	Illinois	Dispensary	100%
Cresco Edibles, LLC	Illinois	Holding Company	100%
TSC Cresco, LLC	Illinois	Licensing	75%

Cresco U.S. Corp., which is wholly owned by the Company, is the sole manager of Cresco Labs, LLC; Cresco Labs, LLC is the sole owner and manager of Cresco Labs Notes Issuer, LLC. Therefore, the Company controls Cresco Labs Notes Issuer, LLC and has consolidated its results into the unaudited condensed interim consolidated financial statements.

Non-controlling interests ("NCI") represent ownership interests in consolidated subsidiaries by parties that are not shareholders of the Company. They are shown as a component of total equity in the unaudited condensed interim consolidated statements of financial position, and the share of income (loss) attributable to NCI is shown as a component of net income (loss) in the unaudited condensed interim consolidated statements of operations and comprehensive income/(loss). Changes in the parent company's ownership that do not result in a loss of control are accounted for as equity transactions.

(d) Significant Accounting Judgements, Estimates, and Assumptions

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 for the current as well as future periods that are affected.

Significant judgements, estimates, and assumptions within these unaudited condensed interim consolidated financial statements, unless stated herein, are consistently applied to the annual consolidated financial statements for the years ended December 31, 2018 and 2017.

The adoption of IFRS 16 *Leases* required, as of January 1, 2019, the Company to assess its significant judgements and certain key estimates when applying the standard in Note 2(f) and Note 7.

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

- Identifying whether a contract or part of a contract includes a lease at inception of the contract. The Company's assessment includes the exercise of judgement about whether the contract depends on a specific asset, whether the Company obtains substantially all the economic benefits from the use of the asset, and whether the Company has the right to direct the use of the asset and non-lease components;
- Identifying lease components and allocating the consideration to each lease component on the basis of the relative stand-alone price of each lease component. The Company assesses each lease component for a right to use an underlying asset and, if necessary, determines the relative stand-alone price for each lease component based on current market prices;
- Determining whether it is reasonably certain that an extension, purchase or termination option will be exercised, on a lease by lease basis. The Company considers all facts and circumstances and examines whether there is an economic incentive or penalty affecting the decision to exercise an option; and
- Establishing whether there are multiple leases in an arrangement. The Company's assessment includes the exercise of judgement whether it has the right to control multiple assets within a contract.

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

- Estimating the lease term. The Company determines the lease term as the non-cancellable period of the lease at the commencement date, adjusted for any purchase, renewal or termination options it deems reasonably certain to exercise;
- Determining the appropriate incremental borrowing rate specific to each leased asset. The Company establishes incremental borrowing rates used as discount factors in discounting payments reflecting Cresco's borrowing rate, duration of lease term and credit spread; and
- Assessing whether a right-of-use ("ROU") asset is impaired if indicators are present.

Unanticipated changes in these judgements 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. Changes in the economic environment or changes in the cannabis and retail industry may impact Management's assessment of lease terms, and any changes in Management's estimate of lease terms may have a material impact on the Company's statement of financial position and statement of operations and comprehensive income/(loss). In addition, the Company's assessed incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment and cannabis industry and the Company's creditworthiness.

These items could potentially result in changes to amounts reported in the consolidated statements of operations and comprehensive income/(loss), cash flows and the financial position of the Company. Refer to Note 7 for additional information.

(e) Revenue Recognition

The Company's primary source of revenue is from wholesale of cannabis products to dispensary locations and direct retail sales to eligible consumers at the Company owned dispensaries.

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

The standard includes a five-step model for contracts with customers as follows:

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

The Company recognizes revenues when control of the promised goods is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods, at a point in time for both wholesale and retail customers.

The following table represents the Company's disaggregated revenue by source, primarily due to the Company's contracts with its customers:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Wholesale	$ 23,585	$ 9,377	$ 53,650	$ 20,437
Dispensary	12,622	3,352	33,502	5,858
Total Revenue	**$ 36,207**	**$ 12,729**	**$ 87,152**	**$ 26,295**

(f) Change in Accounting Policy

In January 2016, the IASB published IFRS 16 *Leases*, replacing IAS 17 *Leases* and International Financial Reporting Interpretations Committee ("IFRIC") 4 *Determining whether an Arrangement Contains a Lease*. IFRS 16 introduced a single lessee accounting model, requiring lessees to recognize assets for the right to use as well as lease liabilities for the outstanding lease payments. The Company adopted IFRS 16 on January 1, 2019, using a modified retrospective approach with the cumulative effect of initially applying the standard recognized at the date of initial application, without restating prior periods.

IFRS 16 permits entities to elect a number of practical expedients to simplify the adoption of IFRS 16 as well as the ongoing application of IFRS 16.

Cresco elected to adopt the following practical expedients upon adoption of IFRS 16:

- The existing leases were not reassessed at the initial application date to determine whether or not they are leases under the criteria of IFRS 16. Instead, contracts classified as leases under IAS 17 or IFRIC 4 will continue to be accounted for as leases;
- Leases for which the lease term ends within 12 months of the date of initial application of the standard were treated as short-term leases and recognized as rent expense within selling, general and administrative ("SG&A") in the statement of operations and comprehensive income/(loss) on a straight-line basis over the lease term; and
- A single discount rate was applied to a portfolio of leases with similar characteristics.

Cresco elected to adopt the following practical expedient on an ongoing basis:

- The Company has elected not to recognize ROU assets and lease liabilities where the total lease term is less than or equal to 12 months. The payments for such leases are recognized as rent expense within SG&A in the statement of operations and comprehensive income/(loss) on a straight-line basis over the lease term.

The Company has real estate leases for retail stores, cultivation facilities, corporate offices, and equipment leases. At inception of a contract, the Company estimates whether the contract includes a lease. A contract contains a lease if it includes enforceable rights and obligations under which the right to control the use of an identified asset is conveyed for a period of time in exchange for consideration. The Company recognized a ROU asset and a lease liability at the commencement date – the date when the asset is available for use by the lessee.

The Company assesses at lease commencement whether it is reasonably certain to exercise extension or termination options. The Company reassesses its lease portfolio to determine whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. The extension options which are considered reasonably certain to be exercised are mainly those for which operational decisions have been made which make the leased assets vital to the continued relevant business activities.

Liabilities arising from a lease are initially measured at the present value of the lease payments that are not paid at that date discounted using the Company's incremental borrowing rate. Lease liabilities include the value of the following payments:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- Penalties for early termination of the lease, if the lease term reflects the Company exercising an option to terminate the lease.

The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is decreased by cash paid less interest expense incurred. The lease liability 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, purchase, or termination option.

ROU assets are measured at cost and are comprised of the following:

- The amount of the initial measurement of lease liability;
- Lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- An estimate of costs of dismantling and removing the underlying asset, restoring the site on which it is located or the underlying asset, if applicable.

The ROU asset is depreciated on a straight-line basis from the commencement date to the end of the lease term. The depreciation expense on ROU assets replaces rent expense. The value of the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain revaluations of the lease liability.

On initial application, the Company elected to measure the ROU assets on a lease-by-lease basis at either 1) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or 2) at its carrying amount as if IFRS 16 had been applied since the commencement date but discounted using the Company's incremental borrowing rate at January 1, 2019.

On initial application, the lease payments were discounted using the Company's incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate was 13%.

The Company recognized a ROU asset of $32,519 thousand, lease liability of $37,707 thousand, accumulated deficit of $1,466 thousand, and a reduction of non-controlling interest of $1,526 thousand at January 1, 2019. The cumulative effect adjustment to accumulated deficit and NCI was a result of measuring the ROU asset for certain leases as if IFRS 16 had been applied since their respective commencement dates.

The following reconciliation to the opening balance for lease liabilities under IFRS 16 as of January 1, 2019 is based on leases at December 31, 2018.

($ in thousands)		
Lease obligations in accordance with IAS 17 at December 31, 2018	$	60,451
Leases not commenced at January 1, 2019		(929)
Exemption for short-term leases		(133)
Lease extension options		34,841
Other		1,149
Obligations from lease arrangements (undiscounted)		95,379
Effect of discounting		(57,672)
Lease liability recognized as of January 1, 2019	**$**	**37,707**

Refer to Note 7 for additional information on the impact of the adoption of IFRS 16.

(g) Recently Issued Accounting Standards

The following IFRS standard was recently issued by the IASB and subsequently adopted by the company. The standards that are not applicable to the Company have been excluded herein.

(i) 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 elected early application for interim and annual periods beginning July 1, 2019. There was no impact from the adoption of IFRS 3 Amendments related to the three and nine month periods ended September 30, 2019.

3. ACCOUNTS RECEIVABLE

As of September 30, 2019 and December 31, 2018, accounts receivable consisted of the following:

($ in thousands)	**September 30, 2019**	**December 31, 2018**
Accounts receivable, gross	$ 14,227	$ 3,678
Allowance for doubtful accounts	(140)	(20)
Total accounts receivable, net	**$ 14,087**	**$ 3,658**

See Note 15 for the analysis of accounts receivable aging and disclosure of bad debt expense.

4. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants. The changes in the carrying value of biological assets to September 30, 2019 from December 31, 2018, consisted of the following:

($ in thousands)	
Biological assets at January 1, 2019	**$ 17,673**
Transferred to inventory upon harvest	(71,518)
Changes in fair value of biological assets	80,930
Biological assets at September 30, 2019	**$ 27,085**

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

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

The Company's estimates are, by their nature, subject to change and differences from the above assumptions will be reflected in the unrealized gain or loss on changes in fair value of biological assets in future periods.

The Company estimates the harvest yields for cannabis at various stages of growth. As of September 30, 2019 and December 31, 2018, it was expected that the Company's biological assets would yield approximately 10,472 thousand and 6,506 thousand grams, respectively.

The Company has quantified the sensitivity of the inputs in relation to biological assets as of September 30, 2019 and expects the following effect on fair value as shown in the table below:

($ in thousands)			Effect on fair value
Significant inputs & assumptions	Range of inputs	Sensitivity	**September 30, 2019**
Selling price per gram, less cost to sell	$1.77 to $7.04	Increase 5%	$ 4,930
		Decrease 5%	(4,930)
Average yield per plant	53 grams to 264 grams	Increase 5%	1,354
		Decrease 5%	(1,354)

5. INVENTORY

As of September 30, 2019 and December 31, 2018, inventory was comprised primarily of cannabis and cannabis-related products. The Company wrote-off $0 and $2,263 thousand of inventory during the three and nine months ended September 30, 2019, respectively, related to the damaged work-in-process inventory in its Ohio operation. This write-off is included in the fair value of inventory sold presented on the condensed interim consolidated statement of operations and comprehensive income/(loss). There were no inventory write-offs for the year ended December 31, 2018. Inventory as of September 30, 2019 and December 31, 2018, consisted of the following:

($ in thousands)	September 30, 2019	December 31, 2018
Raw materials	$ 9,758	$ 8,570
Raw materials - non-cannabis	3,904	1,616
Work-in-process	19,493	10,801
Finished goods	14,765	3,534
Total Inventory	**$ 47,920**	**$ 24,521**

During the three months ended September 30, 2019 and 2018, the Company recognized $46,277 and $15,454 thousand, respectively, of inventory expensed to costs of sales, which includes $23,369 and $6,723 thousand, respectively, of costs of sales – production costs and $22,908 and $8,731 thousand, respectively, of non-cash expense relating to the changes in fair value of inventory sold.

During the nine months ended September 30, 2019 and 2018, the Company recognized $111,651 and $35,055 thousand, respectively, of inventory expensed to costs of sales, which includes $55,228 and $17,469 thousand, respectively, of costs of sales – production costs and $56,423 and $17,586 thousand, respectively, of non-cash expense relating to the changes in fair value of inventory sold.

6. PROPERTY AND EQUIPMENT

As of September 30, 2019 and December 31, 2018, property and equipment consisted of the following:

($ in thousands)	Land and Buildings	Machinery and Equipment	Furniture and Fixtures	Leasehold Improvements	Computer Equipment and Software	Vehicles	Construction In Progress	Total
Cost								
As of December 31, 2018	$ 11,125	$ 4,449	$ 2,088	$ 17,828	$ 1,096	$ 386	$ 4,378	$ 41,350
Additions	2,435	7,238	3,440	22,839	963	251	13,448	50,614
Transfers	5,397	694	-	4,837	-	-	(10,928)	-
As of September 30, 2019	**$ 18,957**	**$ 12,381**	**$ 5,528**	**$ 45,504**	**$ 2,059**	**$ 637**	**$ 6,898**	**$ 91,964**
Accumulated depreciation								
As of December 31, 2018	$ (50)	$ (335)	$ (234)	$ (633)	$ (327)	$ (50)	$ -	$ (1,629)
Depreciation	(250)	(579)	(430)	(1,641)	(277)	(74)	-	(3,251)
As of September 30, 2019	**$ (300)**	**$ (914)**	**$ (664)**	**$ (2,274)**	**$ (604)**	**$ (124)**	**$ -**	**$ (4,880)**
Net book value								
As of September 30, 2019	**$ 18,657**	**$ 11,467**	**$ 4,864**	**$ 43,230**	**$ 1,455**	**$ 513**	**$ 6,898**	**$ 87,084**
As of December 31, 2018	**$ 11,075**	**$ 4,114**	**$ 1,854**	**$ 17,195**	**$ 769**	**$ 336**	**$ 4,378**	**$ 39,721**

As of September 30, 2019 and December 31, 2018, costs related to construction at the Company's facilities were capitalized in construction in progress and not depreciated. Depreciation will commence when construction is completed and the facility is available for its intended use.

Depreciation of $1,331 and $256 thousand was incurred during the three months ended September 30, 2019 and 2018, respectively, of which $294 and $50 thousand is included in selling, general and administrative expenses, with the remainder in cost of sales – production costs and ending inventory.

Depreciation of $3,251 and $696 thousand was incurred during the nine months ended September 30, 2019 and 2018, respectively, of which $827 and $95 thousand, respectively, is included in selling, general and administrative expenses, with the remainder in cost of sales – production costs and ending inventory.

As of September 30, 2019, ending inventory includes $295 thousand of capitalized depreciation. For the three and nine months ended September 30, 2019, $991 and $2,340 thousand of depreciation was recorded to cost of sales – production costs, respectively, which includes $145 and $138 thousand related to depreciation capitalized to inventory in prior quarters.

7. LEASES

Effective January 1, 2019, the Company adopted IFRS 16 *Leases,* as indicated in Note 2(f). The Company is the lessee in all leasing arrangements and has entered into leases primarily for its corporate office, cultivation and processing facilities, and dispensaries. Depending upon the type of lease, the original lease terms generally range from less than 12 months to 15 years. Certain leases permit renewal options, including multiple successive renewal options ranging from 0.5 to 35 years.

ROU Assets - As of September 30, 2019, the Company's single asset class of real estate leases consisted of the following:

($ in thousands)	**As of September 30, 2019**
Real estate	**$ 41,937**

Included in the ROU asset balance is $13,384 thousand of additions for the nine months ended September 30, 2019.

Total interest expense of $1,625 and $4,850 thousand was recorded for the three and nine months ended September 30, 2019, respectively.

Total leasing depreciation of $1,000 and $3,032 thousand was recorded for the three and nine months ended September 30, 2019, respectively. For the three months ended September 30, 2019, $370 thousand of leasing depreciation is included as selling, general and administrative expense with the remainder in cost of sales – production costs and ending inventory. For the nine months ended September 30, 2019, $1,105 thousand of leasing depreciation was included as selling, general and administrative expense with the remainder in cost of sales – production costs and ending inventory.

As of September 30, 2019, ending inventory includes $186 thousand of capitalized depreciation. For the three and nine months ended September 30, 2019, $614 and $1,990 thousand of depreciation was recorded to cost of sales – production costs, respectively, which includes $161 and $255 thousand related to depreciation capitalized to inventory in prior quarters.

For the three and nine months ended September 30, 2018, the Company recorded total lease expense of $1,301 and $3,659 thousand, respectively, of which $133 and $316 thousand, respectively, was expensed to rent expense in selling, general and administrative expenses, with the remainder in cost of sales - production costs and ending inventory.

In addition, the Company did not transition certain leases with durations of twelve months or less and recorded $15 and $169 thousand for the three and nine months ended September 30, 2019, respectively, in rent expense within selling, general and administrative expenses and cost of sales - production costs for its short-term leases, in which the Company recognizes on a straight-line basis over the lease term.

As of September 30, 2019, maturities of lease liabilities were as follows:

($ in thousands)		
2019	$	1,829
2020		7,003
2021		6,496
2022		7,090
2023		7,851
Thereafter		121,286
Total lease payments	**$**	**151,555**

8. INVESTMENTS

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

(a) Investments at Fair Value

The Company has investments in three entities: MassRoots, Inc. ("MassRoots"), a publicly traded cannabis company; 420 Capital Management, LLC ("420 Capital"), a cannabis investment company; and Lighthouse Strategies, LLC ("Lighthouse"), a diversified cannabis investment company. MassRoots, 420 Capital, and Lighthouse investments are accounted for at fair value. On August 12, 2019, the Company settled its outstanding loan receivable with Lighthouse of $3,264 thousand through receipt of Lighthouse membership units approximating 1.2% ownership of the parent company with a fair value of $4,025 thousand as of September 30, 2019. See Note 15 for additional details. The following is a summary of the investments held as of September 30, 2019 and December 31, 2018:

($ in thousands)	September 30, 2019	December 31, 2018
MassRoots	$ 1	$ 12
420 Capital	68	68
Lighthouse	4,025	-
Total investments	**$ 4,094**	**$ 80**

The Company recorded a mark-to-market loss of $2 and $22 thousand for the three months ended September 30, 2019 and 2018, respectively, and a mark-to-market loss of $11 and $95 thousand for the nine months ended September 30, 2019 and 2018, respectively.

(b) Investment in Associates

The Company's ownership stake in CHP Fresco, a real estate holding entity that owns indirect investments in entities that own properties used in the Company's Illinois production facilities, is approximately 13%. However, based on various qualitative factors surrounding the investment, such as representation in management of the entity and its relationship as lessee with the investee entities, the Company has determined it confers significant influence. The following is a summary of the investment held as of September 30, 2019 and December 31, 2018:

($ in thousands)	September 30, 2019	December 31, 2018
CHP Fresco	$ 351	$ 353
Total investment	**$ 351**	**$ 353**

The Company recorded investment income of $35 and $107 thousand for the three and nine months ended September 30, 2019, respectively, partially offset by distributions of $39 and $109 thousand for the three and nine months ended September 30, 2019, respectively. The Company did not record investment income or distributions for its investment in CHP Fresco for the three and nine months ended September 30, 2018.

9. INTANGIBLE ASSETS AND GOODWILL

A reconciliation of the beginning and ending balances of intangible assets and goodwill as of September 30, 2019 and December 31, 2018, consisted of the following:

($ in thousands)	Customer Relationships	Permit Application Costs	Licenses (a)	Other Intangibles (b)	Goodwill	Total
Cost						
Balance at December 31, 2018	$ 5,429	$ 2,389	$ 18,047	$ 1,833	$ 51,146	$ 78,844
Additions	-	3,262	-	-	13	3,275
Balance at September 30, 2019	**$ 5,429**	**$ 5,651**	**$ 18,047**	**$ 1,833**	**$ 51,159**	**$ 82,119**
Accumulated amortization						
Balance at December 31, 2018	$ (130)	$ (1,866)	$ -	$ (238)	$ -	$ (2,234)
Amortization	(509)	(675)	(105)	(587)	-	(1,876)
Balance at September 30, 2019	**$ (639)**	**$ (2,541)**	**$ (105)**	**$ (825)**	**$ -**	**$ (4,110)**
Net book value						
September 30, 2019	**$ 4,790**	**$ 3,110**	**$ 17,942**	**$ 1,008**	**$ 51,159**	**$ 78,009**
December 31, 2018	**$ 5,299**	**$ 523**	**$ 18,047**	**$ 1,595**	**$ 51,146**	**$ 76,610**

(a) Licenses include indefinite-lived and definite-lived intangibles.

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

Amortization of $642 and $179 thousand was recorded for the three months ended September 30, 2019 and 2018, respectively, of which $318 and $101 thousand, respectively, is included in selling, general and administrative expenses, with the remainder in cost of sales – production costs and ending inventory.

Amortization of $1,876 and $516 thousand was recorded for the nine months ended September 30, 2019 and 2018, respectively, of which $916 and $188 thousand, respectively, is included in selling, general and administrative expenses, with the remainder in cost of sales – production costs and ending inventory.

As of September 30, 2019, ending inventory includes $186 thousand of capitalized amortization. For the three and nine months ended September 30, 2019, $327 and $798 thousand of amortization expense was recorded to cost of sales – production costs, respectively, which includes $128 and $88 thousand related to amortization capitalized to inventory in prior quarters.

10. ACCOUNTS PAYABLE AND OTHER ACCRUED EXPENSES

As of September 30, 2019 and December 31, 2018, accounts payable and other accrued expenses were comprised of the following:

($ in thousands)	September 30, 2019	December 31, 2018
Accounts payable	$ 12,116	$ 4,430
Accrued expenses	8,895	1,262
Payroll liabilities	2,883	795
Excise taxes payable	361	338
Tax penalty	275	275
Property taxes payable	2	390
Licensing fee payable	58	105
Total accounts payable and other accrued expenses	**$ 24,590**	**$ 7,595**

11. SHARE CAPITAL

(a) Authorized

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

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

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

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

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

During the nine months ended September 30, 2019, 158,000 PVS were exchanged for 31,676,000 SVS at a rate of 1 PVS for 200 SVS.

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

Holders of MVS shall be entitled to notice of and to attend at any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company shall have the right to vote. At each such meeting holders of MVS shall be entitled to 2,000 votes in respect of each MVS held.

iv. *Pre-RTO Capital Structure*

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

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

(b) Issued and Outstanding

A reconciliation of the beginning and ending balances of the issued and outstanding shares and units for the nine months ended September 30, 2019 is as follows:

(in thousands)		**Redeemable Units**	**Subordinate Voting Shares (SVS)**	**Super Voting Shares (MVS)**	**Proportionate Voting Shares (PVS)***	**Shares to be issued**
Ending balance, December 31, 2018		143,844	26,711	500	82,803	3,020
Stock options exercised	*Note 12*	-	151	-	440	-
Warrants exercised	*Note 11(d)*	-	170	-	-	-
Issuance of MedMar Shares	*Note 11(e)*	-	-	-	3,020	(3,020)
PVS converted to SVS	*Note 11(a)(ii)*	-	31,676	-	(31,676)	-
Cresco LLC redemption	*Note 11(g)*	(1,456)	1,456	-	-	-
Share issuance from equity raise	*Note 11(c)*	-	7,350	-	-	-
Ending balance, September 30, 2019		**142,388**	**67,514**	**500**	**54,587**	**-**

* PVS presented on an "as-converted" basis to SVS (1-to-200)

A reconciliation of the beginning and ending balances of the issued and outstanding shares and units for the nine months ended September 30, 2018 is as follows:

(in thousands)		Class A Units	Class B Units	Class C Units	Class D Units	Class E Units	Class F Units	Founders Units
Ending balance, December 31, 2017		93,000	14,056	16,770	3,999	14,007	-	33,000
Investment in Lighthouse, Nevada	*Note 15(a)(i)*	-	-	-	-	500	-	-
May Class F equity financing	*Note 11(h)(vi)*	-	-	-	-	-	11,851	-
October Class F equity financing through September 30, 2018	*Note 11(h)(vi)*	-	-	-	-	-	18,298	-
Change in ownership interest	*Note 11(h)(v)*	-	-	-	-	-	21,547	-
Shares issued (investment in associate)	*Note 8(b)*	-	-	-	-	-	114	-
Stock options exercised	*Note 12*	-	-	-	189	-	-	-
Shares issued as compensation	*Note 11(h)(iv)*	-	-	250	1,273	-	-	-
Stock dividend	*Note 11(h)(iii)*	1,400	140	-	-	-	-	-
Ending balance, September 30, 2018		**94,400**	**14,196**	**17,020**	**5,461**	**14,507**	**51,810**	**33,000**

(c) Shares Issued Through Equity Raise

In September 2019, the Company completed an underwritten unit offering to issue 7,350,000 "Offered Units" at a price of $7.55 per unit. The Offered Units comprised of one share and one-half warrant with net proceeds received of $52,239 thousand and a corresponding increase to equity of $49,170 thousand, less equity issuance costs of $3,094 thousand. Refer to Note 15 for information regarding warrants recorded as part of this offering.

(d) Stock Purchase Warrants

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

	Number of warrants	Weighted-average exercise price
Balance as of December 31, 2018	397,079	$6.29
Issued	3,675,000	9.43
Exercised	(169,535)	6.16
Balance as of September 30, 2019	**3,902,544**	**$9.26**

During the nine months ended September 30, 2019, the Company recorded $1,674 thousand of warrant exercises into share capital. Of the 3,902,544 warrants outstanding, 18,253 warrants issued to previous holders of Randsburg warrants were classified as a long-term derivative liability. See Note 15 for information about valuation of Randsburg warrants.

The fair value of broker warrants issued in 2019 was determined using the Black-Scholes option-pricing model with the following assumptions at the time of issuance:

Risk-free annual interest rate	1.77%
Expected annual dividend yield	0%
Expected stock price volatility	82%
Expected life of stock options	1.5 years
Forfeiture rate	0%
Share price on grant date	$6.22

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

(e) Issuance of MedMar Shares

In April 2019, the acquisition of MedMar Inc. was approved by regulators and shares of Cresco Labs Inc. were issued in conjunction with the consideration of the acquisition.

(f) Distribution to LLC Unit Holders

During the second quarter of 2019, in accordance with the operating agreement of Cresco Labs, LLC, the Company declared a distribution of profits to 2018 unit holders of Cresco Labs, LLC. The total distribution was $3,630 thousand. The Company recorded a $688 thousand reduction to non-controlling interest of Cresco Labs, LLC for distributions to members who hold Redeemable Units. The remaining $2,942 thousand distribution was recorded as an increase to accumulated deficit.

(g) Changes in Ownership and Non-controlling Interests

In February 2019, the Company acquired an additional 1% of Phoenix Farms of Illinois, LLC (“Phoenix”) decreasing non-controlling interest from 11% to 10%. The consideration paid was $184 thousand. This resulted in a $150 thousand increase in accumulated deficit and a $34 thousand decrease in non-controlling interest.

In May 2019, the Company acquired the remaining 10% of non-controlling interest from Phoenix. The consideration paid was $649 thousand, which resulted in a $288 thousand increase in accumulated deficit and a $361 thousand decrease in non-controlling interest.

In July 2019, redemption of 1,456,000 redeemable units occurred which were converted into an equivalent number of SVS. This redemption resulted in a decrease of 0.6% in non-controlling interest in Cresco Labs, LLC, an increase to accumulated deficit of $13,195 thousand, and a decrease of $1,527 thousand in non-controlling interest.

As of and for the nine months ended September 30, 2019, non-controlling interest included the following amounts after intercompany eliminations:

September 30, 2019 (*$ in thousands*)	**TSC Cresco, LLC**	**MedMar Inc. (Lakeview)**	**MedMar Inc. (Rockford)**	**Cresco Labs Ohio, LLC**	**SLO Cultivation Inc.**	**Other entities including Cresco Labs, LLC[1]**	**Total**
Non-current assets	1,527	19,852	17,759	12,402	22,918	151,765	226,223
Current assets	761	534	867	8,770	14,837	164,534	190,303
Non-current liabilities	-	(580)	(3,209)	100	(13,224)	(38,616)	(55,529)
Current liabilities	(162)	(395)	(1,653)	(1,197)	(3,681)	(38,658)	(45,746)
Net assets	2,126	19,411	13,764	20,075	20,850	239,025	315,251
Net assets attributable to NCI	825	2,889	2,049	214	(1,670)	148,634	152,941
Revenue	3,123	2,886	3,901	1,314	9,639	66,289	87,152
Gross profit	3,121	1,519	1,890	3,106	(3,290)	50,085	56,431
Total comprehensive income (loss)	2,775	(1,110)	(683)	150	(8,946)	(12,272)	(20,086)
Comprehensive income (loss) allocated to NCI	694	(139)	(171)	2	(1,789)	(3,470)	(4,873)
NCI percentage at September 30, 2019	25%[1]	12.5%[1]	25%[1]	1.0%[1]	20.0%[1]	56.3%[1]	

[1] The NCI percentage reflects the NCI that exists at Cresco Labs, LLC. There is a further 56.3% NCI related to NCI for Cresco Labs Inc.

As of and for the twelve months ended December 31, 2018, non-controlling interest included the following amounts after intercompany eliminations:

December 31, 2018 (*$ in thousands*)	**TSC Cresco, LLC**	**Cresco Labs Phoenix Farms, LLC**	**MedMar Inc. (Lakeview)**	**MedMar Inc. (Rockford)**	**Cresco Labs Ohio, LLC**	**SLO Cultivation Inc.**	**Other Entities including Cresco Labs, LLC[1]**	**Total**
Non-current assets	39	3,468	19,405	16,922	10,493	2,036	73,044	125,407
Current assets	599	631	280	358	2,728	5,355	182,753	192,704
Non-current liabilities	(11)	-	(143)	(202)	(10)	(653)	(8,881)	(9,900)
Current liabilities	(105)	-	(420)	(525)	(108)	(977)	(23,095)	(25,230)
Net assets	522	4,099	19,122	16,553	13,103	5,761	223,821	282,981
Net assets attributable to NCI	167	379	3,149	2,099	212	119	155,825	161,950
Revenue	2,439	1,733	273	397	-	690	37,720	43,252
Gross profit	669	307	(45)	(74)	278	444	38,838	40,417
Total comprehensive income (loss)	669	307	(45)	(74)	278	444	1,514	3,093
Comprehensive income (loss) allocated to NCI	167	307	(7)	(14)	(206)	225	4,536	5,008
NCI percentage at December 31, 2018	25%[1]	10.5%[1]	12.5%[1]	25%[1]	1.0%[1]	20.0%[1]	56.9%[1]	

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

(h) 2018 Equity Activity

During the nine months ended September 30, 2018, the Company experienced the following equity movements:

(i) Repayment of subscription receipt

During the period ended September 30, 2018, the Company received $260 thousand in subscription receipt repayments.

(ii) Non-controlling interest contribution

During the period ended September 30, 2018, the Company received capital contributions of $3,609 thousand from Cresco Yeltrah, LLC members.

(iii) Stock Dividend

On July 13, 2018, the Company offered a dividend distribution of Class A and Class B Units in proportion to the total units outstanding of each individual class for a total of 1,540,000 units at a fair value of $2.25/unit.

(iv) Shares issued as compensation

During the nine months ended September 30, 2018, the Company issued certain shares noted in the reconciliation of shares outstanding as compensation, pursuant to an equity allocation agreement, in exchange for services received and financing fees.

(v) Changes in Ownership and Non-controlling interest

On January 19, 2018, Cresco Labs, LLC acquired 64.2% of the issued and outstanding units of Phoenix for $2,641 thousand of cash consideration of which $1,936 and $1,813 thousand were allocated to net identified assets acquired and goodwill, respectively, offset by an increase in non-controlling interest of $1,108 thousand.

In June 2018, Company acquired an additional 25% of Phoenix decreasing non-controlling interest from 36% to 11%. The consideration paid was 439,000 F Units which could be converted into publicly traded Cresco Labs Inc. shares. This resulted in a $987 thousand increase to share capital, and an increase to accumulated deficit of $194 thousand after the reclassification of the non-controlling interest carrying balance.

In May 2018, the Company acquired an additional 19% of Cresco Labs Ohio, LLC decreasing non-controlling interest from 68% to 49%. The consideration paid was 2,403,000 F Units which could be converted into publicly traded Cresco Labs Inc. shares. This resulted in a $5,406 thousand increase to share capital, a decrease to non-controlling interest of $2,958 thousand, and an increase to accumulated deficit of $2,448 thousand after the reclassification of the non-controlling interest carrying balance.

In June 2018, the Company acquired an additional 6% of Cresco Labs Ohio, LLC decreasing non-controlling interest from 49% to 43%. The consideration paid was 680,000 F Units which could be converted into publicly traded Cresco Labs Inc. shares. This resulted in a $1,531 thousand increase to share capital, a decrease to non-controlling interest of $883 thousand, and an increase to accumulated deficit of $648 thousand after the reclassification of the non-controlling interest carrying balance.

In August 2018, the Company acquired an additional 3% of Cresco Labs Ohio, LLC decreasing non-controlling interest from 43% to 40%. The consideration paid was 405,000 F Units which could be converted into publicly traded Cresco Labs Inc. shares. This resulted in a $911 thousand increase to share capital, a decrease to non-controlling interest of $586 thousand, and an increase to accumulated deficit of $325 thousand after the reclassification of the non-controlling interest carrying balance.

In September 2018, the Company acquired an additional 39% of Cresco Labs Ohio, LLC decreasing non-controlling interest from 40% to 1%. The consideration paid was 4,303,000 F units which could be converted into publicly traded Cresco Labs Inc. shares. This resulted in a $9,681 thousand increase to share capital, a decrease to non-controlling interest of $5,861 thousand, and an increase to accumulated deficit of $3,820 thousand after the reclassification of the non-controlling interest carrying balance.

In August 2018, the Company acquired an additional 10% of Cresco Yeltrah, LLC decreasing non-controlling interest from 69% to 59%. The consideration paid was 1,317,000 F units which could be converted into publicly traded Cresco Labs Inc. shares. This resulted in a $2,962 thousand increase to share capital, a decrease to non-controlling interest of $1,461 thousand, and an increase to accumulated deficit of $1,501 thousand after the reclassification of the non-controlling interest carrying balance.

In September 2018, the Company acquired an additional 57% of Cresco Yeltrah, LLC decreasing non-controlling interest from 59% to 2%. The consideration paid was 9,733,000 F Units which could be converted into publicly traded Cresco Labs Inc. shares. This resulted in a $21,900 thousand increase to share capital, a decrease to non-controlling interest of $9,361 thousand, and an increase to accumulated deficit of $12,539 thousand after the reclassification of the non-controlling interest carrying balance.

In September 2018, the Company acquired an additional 20% of SLO Cultivation, Inc. decreasing non-controlling interest from 40% to 20%. The consideration paid was 2,267,000 F Units which could be converted into publicly traded Cresco Labs Inc. shares. This resulted in a $8,500 thousand increase to share capital, and a decrease to non-controlling interest of $106 thousand, and an increase to accumulated deficit of $8,394 thousand after the reclassification of the non-controlling interest carrying balance.

(vi) Private Placement Offerings

During the second quarter of 2018, the Company began a non-brokered private placement of approximately 11,851,000 Class F units at a price of $1.97 to $2.25 per unit. Aggregate gross proceeds as of the six months ended June 30, 2018 were approximately $23,466 thousand. Total fees recorded for the May 2018 placement offering was $888 thousand, comprised of $549 thousand cash and $339 thousand non-cash. The non-cash component was in the form of 339,000 Class D Units issued at fair value.

During the three months ended September 30, 2018, a brokered private placement of 18,298,000 F Units were issued at a price of $3.75 per unit, for aggregate gross proceeds of $68,617 thousand, less equity issuance fees of $360 thousand. The non-cash component was in the form of immediate grants of 553,000 Class D Units; the fair value of which was the per-unit price of $3.75 and is recorded as part of shares issued as compensation in the Statement of Shareholder's Equity.

(vii) Shares Issued (Investment in Associate)

Via a purchase agreement signed in April 2018, Cresco Labs, LLC acquired a 35% stake in PDI in September 2018 in exchange for $901 thousand in cash consideration and 114,000 F Units to expand its retail footprint in the Illinois market. PDI operates a medical cannabis dispensary in the Chicago area suburb of Buffalo Grove, IL. This investment was initially accounted for using the equity method.

12. SHARE-BASED COMPENSATION

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

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

	Number of stock options outstanding	Weighted-average exercise price
Outstanding - December 31, 2018	19,500,000	$ 2.11
Granted	3,632,000	7.62
Exercised	(590,850)	1.09
Forfeited	(314,150)	2.10
Outstanding - September 30, 2019	**22,227,000**	**$ 3.04**
Exercisable - September 30, 2019	**5,254,562**	**$ 1.64**

The following table summarizes the stock options outstanding as of September 30, 2019:

Expiration date	Stock options outstanding	Exercise price	Stock options exercisable
May 2025	100,000	$1.00	100,000
June 2025	200,000	0.50	200,000
September 2025	10,000	1.00	10,000
January - March 2026	290,000	1.00	215,000
May - June 2026	800,000	1.00	675,000
November - December 2026	37,500	1.00	10,000
January - March 2027	40,000	1.00	22,500
August 2027 - September	235,000	1.00	122,251
October - November 2027	500,000	1.00	141,600
November - December 2027	300,000	1.14	75,000
January - March 2028	11,663,750	1.14	3,101,893
April 2028	400,000	1.14	100,000
May - June 2028	950,000	2.25	237,500
July 2028	200,000	2.25	50,000
July - September 2028	778,750	3.75	193,818
October - November 2028	2,210,000	3.75	-
December 2028	280,000	6.50	-
February 2029	90,000	6.50	-
March 2029	382,000	11.25	-
June 2029	1,340,000	10.28	-
September 2029	1,420,000	5.90	-
	22,227,000		**5,254,562**

Weighted average stock price of options on the dates on which options were exercised during the nine months ended September 30, 2019 was $8.04.

The Company recorded compensation expense in the amount of $5,479 and $7,057 thousand for the three months ended September 30, 2019 and 2018, respectively. For the three months ended September 30, 2019 and 2018, the company expensed $3,991 and $6,979 thousand, respectively, to selling, general and administrative expenses, with the remainder in cost of sales – production costs and ending inventory.

The Company recorded compensation expense in the amount of $12,128 and $7,243 thousand for the nine months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, the company expensed $9,841 and $7,121 thousand, respectively to selling, general and administrative expenses, with the remainder in cost of sales – production costs and ending inventory.

As of September 30, 2019, ending inventory includes $1,431 thousand of capitalized compensation expense. For the three and nine months ended September 30, 2019, $510 and $903 thousand of compensation expense was recorded to cost of sales – production costs, respectively, which includes $281 and $54 thousand related to compensation expense capitalized to inventory in prior quarters.

The Company also recorded provision for income tax related to share-based compensation of $439 and $973 thousand for the three and nine months ended September 30, 2019. Unrecognized compensation expense as of September 30, 2019 is $24,668 thousand.

The fair value of stock options granted during 2019 was determined using the Black-Scholes option-pricing model with the following range of assumptions at the time of the grant:

	September 30, 2019
Risk-free annual interest rate	2.09% to 2.49%
Expected annual dividend yield	0%
Expected stock price volatility	78% to 80%
Expected life of stock options	5.5 to 7 years
Forfeiture rate	0% to 3%
Fair value at grant date	$3.88 to $8.26
Stock price at grant date	$5.90 to $11.25
Exercise price range	$5.90 to $11.25

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

During the three and nine months ended September 30, 2019, the weighted-average fair value of stock options granted was $5.71 and $4.08 per option, respectively. As of September 30, 2019, stock options outstanding have a weighted-average remaining contractual life of 8.9 years.

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses consisted of the following for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Salaries and related	$ 7,333	$ 1,315	$ 17,101	$ 3,023
Consulting and professional fees	6,063	573	13,676	1,254
Share-based compensation	3,991	6,979	9,841	7,121
Advertising and marketing	2,709	419	7,351	1,066
Travel and entertainment	912	286	2,357	557
Office	915	232	2,274	523
Excise taxes	1,286	557	2,776	1,243
Insurance	413	26	1,385	117
Business expansion costs	77	-	841	-
Other	1,775	1,028	4,350	1,671
Selling, general and administrative expenses	**$ 25,474**	**$ 11,415**	**$ 61,952**	**$ 16,575**

14. OTHER INCOME, NET

For the three and nine months ended September 30, 2019 and 2018, other income, net consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Gain on derivative instruments (Note 15)	$ 1,459	$ 178	$ 1,233	$ 589
Loss on changes in fair value of contingent consideration	(93)	-	(815)	-
Gain on changes in fair value of loans receivable	1,288		1,288	
Dividends received	10	-	97	-
Unrealized loss on investments held at fair value	(2)	(22)	(11)	(41)
Loss on foreign currency	(18)	-	(28)	-
Other income	70	-	195	-
Other income, net	**$ 2,714**	**$ 156**	**$ 1,959**	**$ 548**

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

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 September 30, 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 September 30, 2019 and December 31, 2018:

($ in thousands)	**September 30, 2019**	**December 31, 2018**
Financial Assets:		
Cash and cash equivalents	$ 73,658	$ 131,302
Restricted cash	8,094	6,726
Accounts receivable, net	14,087	3,658
Loans receivable, short-term	16,083	7,726
Loans receivable, long-term	13,283	7,280
Security deposits	1,465	1,363
Financial Liabilities:		
Accounts payable and other accrued expenses	$ 24,590	$ 7,595
Current portion of lease liabilities	6,206	-
Deferred consideration and other payables	4,090	14,873
Derivative liabilities	178	178
Derivative liabilities - long-term	5,580	146
Lease liabilities	43,926	-
Contingent consideration	-	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 September 30, 2019 and December 31, 2018:

($ in thousands)	IFRS 9 classification	September 30, 2019	December 31, 2018
Short-term loans receivable - Lighthouse (i)	FVTPL	$ -	$ 6,648
Short-term loans receivable - HHH (ii)	Amortized cost	4,654	314
Short-term loans receivable - Valley Ag (ii)	Amortized cost	9,003	678
Short-term loans receivable - VidaCann (ii)	Amortized cost	1,409	-
Interest receivable	Amortized cost	1,017	86
Total short-term loans receivable		**$ 16,083**	**$ 7,726**

(i) Short-Term Loans Receivable with Derivative Features

In conjunction with its agreement to purchase membership interest in Lighthouse equal to a 25% ownership interest in Lighthouse's subsidiary, Nevada Business Services Group, dated January 26, 2018, the Company entered into an escrow and loan arrangement, with certain embedded derivative. In the first quarter of 2018, the Company paid approximately $5,500 thousand in cash. The Company also transferred 500,000 Class E Units to be issued upon closing, valued at approximately $567 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% measured at FVTPL.

On August 12, 2019, the Company settled its outstanding short-term loan receivable with Lighthouse through receipt of Lighthouse membership units approximating 1.2% ownership of the parent company and the issuance of a new secured convertible promissory note that is convertible, at the Company's discretion, into additional membership units approximating 1% ownership of the parent company. The new loan has a maturity of 18 months and an option for the Company to convert into additional membership units. This new loan has a fair value of $2,758 thousand and is held as a long-term loan receivable measured at FVTPL. The settlement of the agreement dated January 26, 2018 resulted in cancellation of the 500,000 Cresco Class E Units previously held in escrow. See Note 8 for discussion of the Company's investment in Lighthouse.

(ii) Other Short-Term Loans Receivable

In conjunction with its agreements to acquire Hope Heal Health, Inc. ("HHH") and Valley Agriceuticals, LLC ("Valley Ag"), the Company entered into certain non-derivative loan arrangements, which are measured at amortized cost. The loan arrangement with HHH allowed for a maximum draw of $1,418 thousand through December 31, 2018 and increased to $4,976 thousand as of September 30, 2019. The loan arrangement with Valley Ag allowed a maximum draw of $3,000 thousand through December 31, 2018 and increased to $11,000 thousand as of September 30, 2019.

On September 13, 2019, the Company entered into a loan agreement with VidaCann, LLC for the principal amount of $2,000 thousand. The Company has determined this short-term loan receivable to be held at amortized cost with an outstanding draw balance of $1,409 thousand as of September 30, 2019.

The following is a summary of the balances as of September 30, 2019 and December 31, 2018:

($ in thousands)	**September 30, 2019**	**December 31, 2018**
Short-term notes receivable - HHH	$ 4,654	$ 314
Short-term notes receivable - Valley Ag	9,003	678
Short-term notes receivable - VidaCann	1,409	-
Total other short-term loans receivable	**$ 15,066**	**$ 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 judgement. No events or changes have occurred that would materially affect the expected credit loss over the life of these instruments and no impairment losses were recorded during the three and nine month periods ended September 30, 2019 or 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 included market rates ranging from 3.3% to 19.0%, a risk-free rate of 1.7% and expected settlement timing of 1.79 years. Changes in Level 3 inputs and assumptions utilized resulted in a fair value gain of $1,288 thousand as of September 30, 2019. At September 30, 2019, of the $14,500 thousand maximum loan commitment, $9,237 thousand had been drawn on these loans.

On August 12, 2019, the Company entered into a secured convertible promissory note with Lighthouse measured at FVTPL and held as a long-term loan receivable in the amount of $2,758 thousand as of September 30, 2019. See Note 15 section (a)(i) for discussion.

(c) Derivative Liability

In conjunction with its acquisition of PDI, the Company recorded a derivative liability of $178 thousand at the acquisition date for an 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 for the nine months ended September 30, 2019.

(d) Stock Purchase Warrants

At September 30, 2019, of the 3,902,544 warrants outstanding, 18,253 warrants issued to previous holders of Randsburg warrants (measured at FVTPL) were classified as a long-term derivative liability with a fair value of $45 thousand at September 30, 2019. 35,071 warrants were exercised during the nine months ended September 30, 2019 for $204 thousand, resulting in a realized gain of $35 thousand and an increase to share capital of $368 thousand. The Company recorded a $5 thousand unrealized foreign exchange loss on outstanding warrants at September 30, 2019. The fair value of non-brokered warrants issued was determined using the Black-Scholes option-pricing model utilizing the following assumptions:

	September 30, 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	$5.90	$6.75

On September 24, 2019, the Company completed an equity raise which resulted in issuance of 3,675,000 warrants measured at FVTPL. See Note 11 for additional information. These warrants were classified as a long-term derivative liability with a fair value of $6,163 thousand. The Company recorded a mark-to-market gain of $628 thousand as of September 30, 2019 due to changes in share price. The fair value of warrants issued was determined using the Black-Scholes option-pricing model utilizing the following assumptions:

	September 30, 2019
Risk-free annual interest rate	1.77%
Expected annual dividend yield	0%
Expected stock price volatility	82%
Expected life of stock options	1.5 years
Forfeiture rate	0%
Share price on date of issuance	$6.22
Share price on September 30, 2019	$5.90

The following is a summary of the long-term derivative liability as of September 30, 2019 and December 31, 2018:

($ in thousands)	
Derivative liabilities - long term, December 31, 2018	$ 146
Additions	6,163
Unrealized loss on changes in fair value - Randsburg	133
Unrealized gain on changes in fair value - Equity raise	(628)
Unrealized loss on foreign exchange	5
Exercises	(204)
Realized gain on exercises	(35)
Derivative liabilities - long-term, September 30, 2019	**$ 5,580**

(e) Deferred Consideration and Other Payables

The following is a summary of deferred consideration and other payables balances as of September 30, 2019 and December 31, 2018:

($ in thousands)	**IFRS 9 classification**	**September 30, 2019**	**December 31, 2018**
MedMar deferred consideration	Amortized cost	$ -	$ 7,231
PDI deferred consideration	Amortized cost	-	4,803
SLO deferred consideration	Amortized cost	-	1,500
MedMar contingent tax consideration liability - current	FVTPL	176	700
MedMar contingent consideration liability for tax payments - current	FVTPL	2,000	-
MedMar contingent consideration liability - current	FVTPL	1,911	-
MedMar notes payable	Amortized cost	3	345
PDI contingent tax consideration liability - current	FVTPL	-	294
Total deferred consideration and other payables		**$ 4,090**	**$ 14,873**

Decreases in deferred consideration between December 31, 2018 and September 30, 2019 are due to payments of deferred consideration related to acquisitions of MedMar, PDI, and SLO in the amounts of $7,231 thousand, $4,803 thousand, and $1,500 thousand, respectively.

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 nine months ended September 30, 2019, the Company made $818 thousand in payments. No other changes in assumptions or rates have occurred. As noted in section (f) – Contingent Consideration of this note, the MedMar contingent consideration liability for tax payments of $2,000 thousand was reclassified from long-term to current in the second quarter of 2019.

The following is a summary of current contingent tax consideration liability as of September 30, 2019 and December 31, 2018:

($ in thousands)	
Contingent tax consideration liability - current, December 31, 2018	$ 994
Additions from acquisition	-
Reclassified from long-term to current	2,000
Payments	(818)
Contingent tax consideration liability - current, September 30, 2019	**$ 2,176**

(f) 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. At December 31, 2018, fair value was measured at FVTPL utilizing a discount rate of 10.8%, a period of 2.5 years, and weighted value based on probability of license outcomes due to law changes. In the second quarter of 2019, Illinois passed recreational use of cannabis into law effective January 1, 2020, resulting in a reclassification of the contingent consideration liability to a short-term liability in Deferred Consideration and Other Payables, see section (e) – Deferred Consideration and Other Payables of this note. In the nine months ended September 30, 2019, the fair value of the liability was increased by $815 thousand, utilizing a discount rate of 13.8% and an updated period of 0.33 years. Accordingly, the fair value of the contingent consideration liability increased to a total of $3,911 thousand as of September 30, 2019. The following is a summary of the non-current contingent consideration liability as of September 30, 2019 and December 31, 2018:

($ in thousands)	**IFRS 9 classification**	**September 30, 2019**	**December 31, 2018**
Non-current - MedMar contingent consideration liability for tax payments	FVTPL	$ -	$ 2,000
Non-current - MedMar contingent consideration	FVTPL	-	1,096
Total long-term contingent consideration		$ **-**	**$ 3,096**

The Company recorded a loss on changes in fair value of contingent consideration of $815 thousand for the nine months ended September 30, 2019. A summary of the MedMar contingent consideration liability (non-tax related) is as follows:

($ in thousands)	
MedMar contingent consideration liability, December 31, 2018	$ 1,096
Unrealized loss on changes in fair value	815
MedMar contingent consideration liability, September 30, 2019	$ **1,911**

(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 September 30, 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 continued 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, changes in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry have passed the House of Representatives but has not yet been voted on within the Senate. Given that current 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 businesses involved with the cannabis industry.

The Company's aging of accounts receivables as of September 30, 2019 and December 31, 2018 was approximately as follows:

($ in thousands)	**September 30, 2019**	**December 31, 2018**
0 to 60 days	$ 11,737	$ 3,469
61 to 120 days	2,191	181
120 days +	299	28
Total accounts receivable, gross	**$ 14,227**	**$ 3,678**

The Company recorded bad debt expense of $120 thousand for the nine months ended September 30, 2019 to account for expected credit loss, and an additional $62 thousand and $141 thousand in bad debt expense related to invoice write-offs for the three and nine months ended September 30, 2019.

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 in Note 7.

In addition to the commitments outlined in Note 7, the Company has the following contractual obligations as of September 30, 2019:

($ in thousands)	**< 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Total**
Accounts payable & other accrued expenses	$ 24,590	$ -	$ -	$ 24,590
Deferred consideration and other payables	4,090	-	-	4,090
Total obligation as of September 30, 2019	$ 28,680	$ -	$ -	$ 28,680

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 and 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 September 30, 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 recorded an immaterial amount of foreign exchange losses related to warrants during the nine months ended September 30, 2019. See Note 14 – Other Income, Net.

As of September 30, 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 September 30, 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. See Note 19 – Income Tax for the Company's disclosure of uncertain tax positions.

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.

16. (LOSS) EARNINGS PER SHARE

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

Potentially dilutive securities of approximately 152,300,000 were excluded in the calculation of EPS for the three and nine months ended September 30, 2019 as their impact would have been anti-dilutive due to net losses in these periods. Potentially dilutive securities of approximately 143,800,000 were excluded from the calculation of diluted EPS for the three months ended September 30, 2018, as their impact would have been anti-dilutive due to net losses in the period.

Calculation of basic and diluted (loss) earnings per share is as follows (in thousands, except per share data):

	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except per share data)	**2019**	**2018**	**2019**	**2018**
Basic (loss) earnings per share				
Net (loss) income attributable to Cresco Labs Inc. shareholders	$ (6,960)	$ (900)	$ (15,213)	$ 2,689
Weighted-average number of shares outstanding	115,511	58,297	114,071	46,981
(Loss) earnings per share – basic	**$ (0.06)**	**$ (0.02)**	**$ (0.13)**	**$ 0.06**
Diluted (loss) earnings per share				
Net (loss) income attributable to Cresco Labs Inc. shareholders	$ (6,960)	$ (900)	$ (15,213)	$ 2,689
Weighted-average number of shares outstanding	115,511	58,297	114,071	46,981
Dilutive effect of redeemable shares	-	-	-	143,844
Weighted average number of common shares outstanding - diluted	115,511	58,297	114,071	190,825
(Loss) earnings per share – diluted	**$ (0.06)**	**$ (0.02)**	**$ (0.13)**	**$ 0.01**

17. 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 consist of the Company's executive management team and management directors. Other than the lease arrangements described below, for the three and nine months ended September 30, 2019, there were no material changes to other related party transactions disclosed in the annual consolidated financial statements for the years ended December 31, 2018 and 2017. Key management personnel compensation for the three and nine months ended September 30, 2019 and 2018 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Management compensation	$ 907	$ 138	$ 1,970	$ 835
Stock compensation expense	981	5,638	2,918	5,661
Total	**$ 1,888**	**$ 5,776**	**$ 4,888**	**$ 6,496**

In addition to the above related party expenses, the Company has lease liabilities for real estate lease agreements in which the lessors have minority interest in SLO Cultivation, Inc. ("SLO") and MedMar, Inc. The lease liabilities were incurred in January 2019 and will expire in December 2023 through 2026.

Below is a summary of the expense resulting from the related party lease liabilities for the three and nine months ended September 30, 2019.

	Three months ended September 30, 2019		Nine months ended September 30, 2019	
($ in thousands)	**Depreciation expense**	**Interest expense**	**Depreciation expense**	**Interest expense**
Finance lease liability; lessor has minority interest in SLO	$ 98	$ 430	$ 296	$ 1,262
Finance lease liability; lessor has minority interest in MedMar Rockford, LLC	16	23	47	68
Finance lease liability; lessor has minority interest MedMar Lakeview, LLC	23	22	69	67

Additionally, below is a summary of the ROU assets and lease liabilities attributable to related party lease liabilities. The ROU asset and lease liability for SLO's lease assumes all lease extension options are exercised. For information on the implementation of IFRS 16, see note 2(f).

	As of September 30, 2019	
($ in thousands)	**ROU asset**	**Lease liability**
Finance lease liability; lessor has minority interest in SLO	$ 11,379	$ 12,766
Finance lease liability; lessor has minority interest in MedMar Rockford, LLC	665	699
Finance lease liability; lessor has minority interest MedMar Lakeview, LLC	666	699

18. INTEREST EXPENSE, NET

Interest expense, net consisted of the following for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Interest expense - leases	$ (1,625)	$ -	$ (4,850)	$ -
Interest expense	-	(4)	(10)	(21)
Interest income	531	-	1,260	-
Interest expense, net	**$ (1,094)**	**$ (4)**	**$ (3,600)**	**$ (21)**

See Note 7 for additional information regarding interest expense – leases related to the Company's adoption of IFRS 16 *Leases*.

19. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES

The Company's effective tax rate was (116%) and (103%) and tax expense was $4,624 thousand and $10,173 thousand for the three and nine months ended September 30, 2019, respectively.

Income tax expense is recognized based on management's estimate of the effective annual income tax rate expected for the full financial year with one-time events recorded in the period incurred.

Deferred tax liabilities and deferred tax assets were primarily comprised of the following:

($ in thousands)		**September 30, 2019**
Deferred tax assets		
Lease liabilities	$	8,600
Other		4,338
Total deferred tax assets	**$**	**12,938**
Deferred tax liabilities		
ROU assets	$	7,247
Intangible assets		3,882
Biological assets		4,265
Other		3,567
Total deferred tax liabilities	**$**	**18,961**
Net deferred tax liabilities	**$**	**6,023**

The Company recognized total net benefit related to one-time events of $27 thousand for the three months ended September 30, 2019 and $3,271 thousand total net expense for the nine months ended September 30, 2019. Items recorded in the period incurred for the three and nine months ended September 30, 2019 included the following:

($ in thousands)	Three months ended September 30, 2019	Nine months ended September 30, 2019
MedMar and PDI DTL	$ (592)	$ 3,115
SLO tax	475	-
Stock options	90	156
Total net (benefit) expense	**$ (27)**	**$ 3,271**

No tax expense or benefit was recognized for financial losses of $3,248 and $8,798 thousand for the three and nine months ended September 30, 2019, respectively.

The Company determined that the tax impact of certain arrangements between its management companies and operating companies is not probable that it would be sustained under IFRIC 23 due to the evolving interpretations of Section 280E. As a result, the Company recorded a reserve for an uncertain tax position. Included in the estimated average annual tax rate is an increase to the reserve of $8,481 thousand.

20. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 27, 2019, which is the date on which these financial statements were issued.

On October 8, 2019, the Company announced that it had closed its acquisition of 100% of the membership interests of Gloucester Street Capital, LLC (“Gloucester”), the parent entity of Valley Agriceuticals, LLC via a merger between Gloucester and a subsidiary of Cresco Labs. As a result of this acquisition, Cresco Labs now holds one of the 10 vertically integrated cannabis business licenses granted in the State of New York by the New York State Department of Health.

Of the approximately $37,500 thousand in total cash consideration for the Gloucester acquisition, approximately $18,800 thousand has been paid to date. Share consideration of 43,301 PVS and 10,000 warrants exercisable for PVS were issued on October 8, 2019. Contingent consideration in cash and shares may be earned if certain future conditions are met.

On October 24, 2019, the Company issued an additional 551,250 share purchase warrants (the “Additional Warrants”) at a price of $1.64 per Additional Warrant for gross proceeds of $909 thousand, pursuant to the partial exercise of the Underwriter’s over-allotment option related to the September equity raise discussed in Note 11(c).

On November 13, 2019, the Company amended the definitive agreement with CannaRoyalty Corp. d/b/a Origin House, originally signed on April 1, 2019 (the “Origin House Agreement”). Under the terms of the amended Origin House Agreement, the subordinate voting shares of Cresco Labs, Inc. to be received by Origin House for each Origin House share (the “Exchange Ratio”) was revised from 0.8428 to 0.7031.

The Origin House Agreement represents total consideration of approximately C$560,000 thousand on a fully-diluted basis, or C$5.47 per Origin House share (based on the Exchange Ratio and the closing price of Cresco Labs Shares on November 12, 2019, the last trading day prior to the announcement of the amended Origin House Agreement). The transaction is expected to close in early 2020 and is subject to the conditions set out in the Origin House Agreement including customary representations, warranties and covenants for transactions of this type, including a termination fee in the amount of C$45,000 thousand payable by Origin House in the event that the Origin House Agreement is terminated in certain circumstances.

On November 26, 2019, the Company announced it had elected to terminate the previously announced letter of agreement to purchase all outstanding shares of VidaCann Ltd. and the corresponding loan agreements (discussed in Note 15) due to a change in capital allocation strategy.

On November 26, 2019, the Company announced it had entered into a sale and leaseback agreement with IIPR to sell our Marshall, Michigan and Yellow Springs, Ohio cultivation facilities for approximately $38,000 thousand.