

Green Thumb Industries Inc.
Unaudited Interim Condensed Consolidated Balance Sheets
As of September 30, 2020 and December 31, 2019
(Amounts Expressed in United States Dollars, Except for Share Amounts)

| | <u>September 30,</u> <u>2020</u> | <u>December 31,</u> <u>2019</u> <i>(Audited)</i> |
|---|-------------------------------------|--|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 78,091,073 | \$ 46,667,334 |
| Accounts Receivable | 13,121,285 | 7,530,253 |
| Inventories | 55,164,258 | 46,034,481 |
| Prepaid Expenses | 6,990,373 | 6,780,657 |
| Other Current Assets | <u>5,692,248</u> | <u>2,049,886</u> |
| Total Current Assets | 159,059,237 | 109,062,611 |
| Property and Equipment, Net | 177,725,092 | 155,596,675 |
| Right of Use Assets, Net | 99,447,497 | 63,647,812 |
| Investments | 22,210,999 | 14,068,821 |
| Investment in Associate | 11,750,000 | 10,350,000 |
| Notes Receivable | — | 815,937 |
| Intangible Assets, Net | 409,655,517 | 435,246,898 |
| Goodwill | 373,081,716 | 375,084,991 |
| Deposits and Other Assets | 1,684,389 | 3,662,879 |
| TOTAL ASSETS | <u><u>\$1,254,614,447</u></u> | <u><u>\$1,167,536,624</u></u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 10,988,374 | \$ 8,745,821 |
| Accrued Liabilities | 46,311,550 | 37,184,406 |
| Current Portion of Notes Payable | 301,027 | 206,675 |
| Current Portion of Lease Liabilities | 4,654,032 | 3,833,268 |
| Liability for Acquisition of Noncontrolling Interest | — | 5,500,000 |
| Contingent Consideration Payable | 27,100,000 | 50,391,181 |
| Income Tax Payable | <u>16,543,826</u> | <u>5,505,904</u> |
| Total Current Liabilities | 105,898,809 | 111,367,255 |
| Long-Term Liabilities: | | |
| Lease Liabilities, Net of Current Portion | 102,408,462 | 61,115,737 |
| Notes Payable, Net of Current Portion and Debt Discount | 96,758,233 | 91,140,194 |
| Contingent Consideration Payable | 9,215,360 | 8,545,558 |
| Warrant Liability | 18,513,000 | 15,879,843 |
| Deferred Income Taxes | <u>41,744,283</u> | <u>36,279,361</u> |
| TOTAL LIABILITIES | 374,538,147 | 324,327,948 |
| COMMITMENTS AND CONTINGENCIES SHARE HOLDERS' EQUITY | | |
| Subordinate Voting Shares (Shares Authorized, Issued and Outstanding at September 30, 2020: Unlimited, 162,999,921 and 162,999,921, respectively, at December 31, 2019: Unlimited, 128,999,964 and 128,999,964, respectively) | — | — |
| Multiple Voting Shares (Shares Authorized, Issued and Outstanding at September 30, 2020: Unlimited, 120,910 and 120,910, respectively, at December 31, 2019: Unlimited, 373,350 and 373,350, respectively) | — | — |
| Super Voting Shares (Shares Authorized, Issued and Outstanding at September 30, 2020: Unlimited, 379,336 and 379,336, respectively, at December 31, 2019: Unlimited, 402,289 and 402,289, respectively) | — | — |
| Share Capital | 1,041,770,917 | 980,638,701 |
| Contributed Surplus | 1,656,498 | 3,960,854 |
| Deferred Share Issuances | 1,835,331 | 16,587,798 |
| Accumulated Deficit | <u>(167,963,430)</u> | <u>(160,491,590)</u> |
| Equity of Green Thumb Industries Inc. | 877,299,316 | 840,695,763 |
| Noncontrolling interests | <u>2,776,984</u> | <u>2,512,913</u> |
| TOTAL SHAREHOLDERS' EQUITY | 880,076,300 | 843,208,676 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u><u>\$1,254,614,447</u></u> | <u><u>\$1,167,536,624</u></u> |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Green Thumb Industries Inc.
Unaudited Interim Condensed Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2020 and 2019
(Amounts Expressed in United States Dollars, Except Share Amounts)

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|---|---|------------------------|--|------------------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Revenues, net of discounts | \$ 157,103,841 | \$ 67,990,907 | \$ 379,346,367 | \$ 140,630,847 |
| Cost of Goods Sold, net | <u>(70,146,676)</u> | <u>(35,849,783)</u> | <u>(175,707,874)</u> | <u>(74,196,750)</u> |
| Gross Profit | <u>86,957,165</u> | <u>32,141,124</u> | <u>203,638,493</u> | <u>66,434,097</u> |
| Expenses: | | | | |
| Selling, General, and Administrative | <u>49,745,979</u> | <u>30,764,406</u> | <u>144,823,947</u> | <u>88,013,769</u> |
| Total Expenses | <u>49,745,979</u> | <u>30,764,406</u> | <u>144,823,947</u> | <u>88,013,769</u> |
| Income (Loss) From Operations | <u>37,211,186</u> | <u>1,376,718</u> | <u>58,814,546</u> | <u>(21,579,672)</u> |
| Other Income (Expense): | | | | |
| Other Income (Expense), net | 6,432,883 | (6,585,540) | 7,501,566 | (7,969,433) |
| Interest Income, net | 5,397 | 407,509 | 109,922 | 1,300,233 |
| Interest Expense, net | <u>(4,460,125)</u> | <u>(5,912,290)</u> | <u>(14,236,475)</u> | <u>(11,762,222)</u> |
| Total Other Income (Expense) | <u>1,978,155</u> | <u>(12,090,321)</u> | <u>(6,624,987)</u> | <u>(18,431,422)</u> |
| Income (Loss) Before Provision for Income Taxes And Non-Controlling Interest | <u>39,189,341</u> | <u>(10,713,603)</u> | <u>52,189,559</u> | <u>(40,011,094)</u> |
| Provision For Income Taxes | <u>28,436,332</u> | <u>3,624,333</u> | <u>56,964,047</u> | <u>4,706,000</u> |
| Net Income (Loss) Before Non-Controlling Interest | <u>10,753,009</u> | <u>(14,337,936)</u> | <u>(4,774,488)</u> | <u>(44,717,094)</u> |
| Net Income Attributable to Non-Controlling Interest | <u>1,109,080</u> | <u>252,857</u> | <u>2,697,352</u> | <u>328,804</u> |
| Net Income (Loss) Attributable To Green Thumb Industries Inc. | <u>\$ 9,643,929</u> | <u>\$ (14,590,793)</u> | <u>\$ (7,471,840)</u> | <u>\$ (45,045,898)</u> |
| Net Income (Loss) per share - basic | <u>\$ 0.04</u> | <u>\$ (0.07)</u> | <u>\$ (0.04)</u> | <u>\$ (0.24)</u> |
| Net Income (Loss) per share - diluted | <u>\$ 0.04</u> | <u>\$ (0.07)</u> | <u>\$ (0.04)</u> | <u>\$ (0.24)</u> |
| Weighted average number of shares outstanding - basic | <u>211,990,405</u> | <u>204,709,085</u> | <u>210,127,323</u> | <u>184,851,805</u> |
| Weighted average number of shares - outstandingdiluted | <u>214,212,292</u> | <u>204,709,085</u> | <u>210,127,323</u> | <u>184,851,805</u> |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Green Thumb Industries Inc.
Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
Nine Months Ended September 30, 2020 and 2019
(Amounts Expressed in United States Dollars)

| | Share Capital | Shares to Be Issued | Contributed Surplus | Deferred Share Issuance | Accumulated Earnings (Deficit) | Non-Controlling Interest | Total |
|---|-----------------------|---------------------|-----------------------|-------------------------|--------------------------------|--------------------------|----------------------|
| Balance, July 1, 2019 | \$ 950,736,500 | \$ — | \$ (4,997,380) | \$ 16,587,798 | \$ (131,830,288) | \$ (392,655) | \$830,103,975 |
| Issuance of shares under business combinations and investments | 14,085,238 | — | 88 | — | — | — | 14,085,326 |
| Stock based compensation | — | — | 3,564,095 | — | — | — | 3,564,095 |
| Shares withheld in lieu of cash | — | — | (125,060) | — | — | — | (125,060) |
| Distributions to limited liability company unit holders | — | — | — | — | — | (1,900,000) | (1,900,000) |
| Net (loss) income | — | — | — | — | (14,590,793) | 252,857 | (14,337,936) |
| Balance, September 30, 2019 | <u>\$ 964,821,738</u> | <u>\$ —</u> | <u>\$ (1,558,257)</u> | <u>\$ 16,587,798</u> | <u>\$ (146,421,081)</u> | <u>\$ (2,039,798)</u> | <u>\$831,390,400</u> |
| Balance, January 1, 2019 | \$ 397,590,465 | \$ 27,773,234 | \$ 14,202,659 | \$ — | \$ (100,876,937) | \$ 3,497,459 | \$342,186,880 |
| Adoption of ASC 842, <i>Leases</i> | — | — | — | — | (498,246) | — | (498,246) |
| Noncontrolling interests adjustment for change in ownership | 27,773,234 | (27,773,234) | 4,200,382 | — | — | — | 4,200,382 |
| Contributions from limited liability company unit holders | — | — | — | — | — | 1,650,000 | 1,650,000 |
| Issuance of shares under business combinations and investments | 509,568,665 | — | (23,813,393) | — | — | — | 485,755,272 |
| Reciprocal derivative instrument | — | — | (4,526,401) | — | — | — | (4,526,401) |
| Issuance of shares for redemption of noncontrolling interests | 29,889,374 | — | (4,820,527) | — | — | — | 25,068,847 |
| Deferred share issuances | — | — | — | 16,587,798 | — | — | 16,587,798 |
| Stock based compensation | — | — | 13,324,083 | — | — | — | 13,324,083 |
| Shares withheld in lieu of cash | — | — | (125,060) | — | — | — | (125,060) |
| Distributions to limited liability company unit holders | — | — | — | — | — | (7,516,061) | (7,516,061) |
| Net (loss) income | — | — | — | — | (45,045,898) | 328,804 | (44,717,094) |
| Balance, September 30, 2019 | <u>\$ 964,821,738</u> | <u>\$ —</u> | <u>\$ (1,558,257)</u> | <u>\$ 16,587,798</u> | <u>\$ (146,421,081)</u> | <u>\$ (2,039,798)</u> | <u>\$831,390,400</u> |
| Balance, July 1, 2020 | \$1,004,812,062 | \$ — | \$ 6,545,712 | \$ 15,280,000 | \$ (177,607,359) | \$ 2,367,904 | \$851,398,319 |
| Noncontrolling interests adjustment for change in ownership | — | — | 5,700,000 | — | — | — | 5,700,000 |
| Issuance of shares for redemption of noncontrolling interests | 20,078,940 | — | (14,728,940) | — | — | — | 5,350,000 |
| Distribution of contingent consideration | 2,690,914 | — | — | — | — | — | 2,690,914 |
| Distribution of deferred shares | 13,444,669 | — | — | (13,444,669) | — | — | — |
| Exercise of options and warrants | 744,332 | — | (295,908) | — | — | — | 448,424 |
| Stock based compensation | — | — | 4,435,634 | — | — | — | 4,435,634 |
| Distributions to third party and limited liability company unit holders | — | — | — | — | — | (700,000) | (700,000) |
| Net income | — | — | — | — | 9,643,929 | 1,109,080 | 10,753,009 |

| | | | | | | | |
|---|------------------------|-------------|---------------------|---------------------|-------------------------|---------------------|----------------------|
| Balance, September 30, 2020 | <u>\$1,041,770,917</u> | <u>\$ —</u> | <u>\$ 1,656,498</u> | <u>\$ 1,835,331</u> | <u>\$ (167,963,430)</u> | <u>\$ 2,776,984</u> | <u>\$880,076,300</u> |
| Balance, January 1, 2020 | \$ 980,638,701 | \$ — | \$ 3,960,854 | \$ 16,587,798 | \$ (160,491,590) | \$ 2,512,913 | \$843,208,676 |
| Contributions from limited liability company unit holders | — | — | — | — | — | 50,000 | 50,000 |
| Issuance of shares under business combinations and investments | 2,524,560 | — | (2,678,489) | — | — | — | (153,929) |
| Issuance of shares for redemption of noncontrolling interests | 20,078,940 | — | (14,728,940) | — | — | — | 5,350,000 |
| Distribution of contingent consideration | 22,885,813 | — | — | — | — | — | 22,885,813 |
| Distribution of deferred shares | 14,752,467 | — | — | (14,752,467) | — | — | — |
| Issuance of warrants | — | — | 181,272 | — | — | — | 181,272 |
| Exercise of options and warrants | 890,436 | — | (234,340) | — | — | — | 656,096 |
| Stock based compensation | — | — | 15,209,518 | — | — | — | 15,209,518 |
| Distributions to third party and limited liability company unit holders | — | — | (53,377) | — | — | (2,483,281) | (2,536,658) |
| Net (loss) income | — | — | — | — | (7,471,840) | 2,697,352 | (4,774,488) |
| Balance, September 30, 2020 | <u>\$1,041,770,917</u> | <u>\$ —</u> | <u>\$ 1,656,498</u> | <u>\$ 1,835,331</u> | <u>\$ (167,963,430)</u> | <u>\$ 2,776,984</u> | <u>\$880,076,300</u> |

Green Thumb Industries Inc.
Unaudited Interim Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2020 and 2019
(Amounts Expressed in United States Dollars)

| | Nine Months Ended September 30, | |
|--|--|----------------------|
| | 2020 | 2019 |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Net loss attributable to Green Thumb Industries Inc. | \$ (7,471,840) | \$ (45,045,898) |
| Net income attributable to non-controlling interest | 2,697,352 | 328,804 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 38,479,960 | 17,528,891 |
| Amortization of operating lease assets | 18,987,980 | 4,229,889 |
| Loss on disposal of property and equipment | 29,858 | — |
| (Gain) loss from investment in associate | — | 56,423 |
| Bad debt expense | 315,798 | — |
| Deferred income taxes | 4,377,000 | (5,712,000) |
| Stock based compensation | 15,209,520 | 13,324,083 |
| Decrease (increase) in fair value of investments | (9,542,178) | 886,002 |
| Changes in value of liabilities related to put option and purchase of noncontrolling interests | — | (823,550) |
| Interest on contingent consideration payable and acquisition liabilities | 998,842 | 3,258,804 |
| Decrease in fair value of contingent consideration | (425,424) | — |
| Increase in fair value of warrant liability | 2,060,771 | — |
| Decrease in fair value of note receivable | 815,937 | 7,424,727 |
| Amortization of debt discount | 4,048,531 | 2,100,738 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (5,616,054) | 1,165,271 |
| Inventories | (9,129,777) | (9,478,848) |
| Prepaid expenses and other current assets | (4,142,854) | (3,237,772) |
| Deposits and other assets | 1,567,458 | 1,045,821 |
| Accounts payable | 2,242,553 | 1,707,947 |
| Accrued liabilities | 13,609,399 | 14,451,557 |
| Operating lease liabilities | (12,674,176) | (4,184,228) |
| Income tax payable | 14,617,544 | 260,535 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 71,056,200 | (712,804) |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (49,221,442) | (66,875,245) |
| Proceeds from disposal of assets | 11,799,025 | — |
| Repayment of debenture investments | — | 3,000,000 |
| Purchase of businesses, net of cash acquired | — | (108,067,892) |
| NET CASH USED IN INVESTING ACTIVITIES | (37,422,417) | (171,943,137) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Contributions from limited liability company unit holders | 50,000 | 1,650,000 |
| Distributions to third parties and limited liability company unit holders | (2,536,658) | (7,516,061) |
| Proceeds from exercise of options and warrants | 656,096 | — |
| Proceeds from issuance of notes payable | — | 117,435,724 |
| Payment for purchase of noncontrolling interest | (150,000) | — |
| Principal repayment of notes payable | (229,482) | (18,778,140) |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (2,210,044) | 92,791,523 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH: | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 31,423,739 | (79,864,418) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 46,667,334 | 145,986,072 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 78,091,073 | \$ 66,121,654 |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Green Thumb Industries Inc.
Unaudited Interim Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2020 and 2019
(Amounts Expressed in United States Dollars)

| | Nine Months Ended September 30, | |
|---|--|-----------------------------|
| | 2020 | 2019 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest paid | <u>\$ 9,418,727</u> | <u>\$ 5,964,621</u> |
| NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Accrued capital expenditures | <u>\$ (6,798,187)</u> | <u>\$ 4,232,914</u> |
| Noncash increase in right of use asset | <u>\$(36,854,352)</u> | <u>\$ (22,233,609)</u> |
| Noncash increase in lease liability | <u>\$ 36,854,352</u> | <u>\$ 22,731,855</u> |
| Net liability upon adoption of ASC 842, <i>Leases</i> | <u>\$ —</u> | <u>\$ (498,246)</u> |
| Exercise of put option | <u>\$ —</u> | <u>\$ 4,200,382</u> |
| Warrants attributable to debt issuance | <u>\$ 753,658</u> | <u>\$ —</u> |
| Mortgages associated with dispensaries | <u>\$ 2,647,000</u> | <u>\$ —</u> |
| Liability for purchase of noncontrolling interest | <u>\$ (5,350,000)</u> | <u>\$ —</u> |
| Liability associated with acquisition agreement | <u>\$ 2,000,000</u> | <u>\$ —</u> |
| Issuance of shares under acquisition agreement | <u>\$ 22,485,670</u> | <u>\$(485,476,925)</u> |
| Deferred share issuances | <u>\$(14,752,467)</u> | <u>\$ 16,587,798</u> |
| Acquisitions | | |
| Inventory | \$ — | \$ 13,602,245 |
| Accounts receivable | — | 2,117,412 |
| Property and equipment | 80,615 | 17,341,103 |
| Right of use assets | — | 4,154,672 |
| Identifiable intangible assets | (145,000) | 305,625,592 |
| Goodwill | (2,003,275) | 393,278,807 |
| Deposits and other assets | 603,988 | 1,694,533 |
| Liabilities assumed | (1,302,604) | (9,489,616) |
| Lease liabilities | — | (4,154,672) |
| Contingent liabilities | — | (52,864,000) |
| Equity interests issued | 503,389 | (485,476,925) |
| Deferred share issuances | — | (16,587,798) |
| Conversion of note receivable previously issued | — | (27,025,800) |
| Acquisition liability | (228,813) | (1,630,893) |
| Deferred income taxes | 2,491,700 | (32,448,100) |
| | <u>\$ —</u> | <u>\$ —</u> |
| RECONCILIATION OF CASH, AND CASH EQUIVALENTS AND RESTRICTED CASH | | |
| Cash and cash equivalents | <u>\$ 75,116,621</u> | <u>\$ 66,121,654</u> |
| Restricted cash | <u>2,974,452</u> | <u>—</u> |
| TOTAL CASH, AND CASH EQUIVALENTS AND RESTRICTED CASH | <u>\$ 78,091,073</u> | <u>\$ 66,121,654</u> |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Green Thumb Industries Inc.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(Amounts Expressed in United States Dollars, Except Where Stated Otherwise)

1. Overview and Basis of Presentation

(a) Description of Business

Green Thumb Industries Inc. (“Green Thumb” or the “Company”) is promoting well-being through the power of cannabis through branded consumer packaged goods and people-first retail experiences, while being committed to community and sustainable profitable growth. Green Thumb owns, manufactures, and distributes a portfolio of cannabis consumer packaged goods brands including Beboe, Dogwalkers, Dr. Solomon’s, incredibles, Rythm and The Feel Collection, primarily to third-party retail stores across the United States as well as to Green Thumb owned retail stores. The Company also owns and operates retail cannabis stores that include a rapidly growing national chain of retail cannabis stores named Rise™ and a Las Vegas, Nevada area chain of retail cannabis stores named Essence. As of September 30, 2020, Green Thumb has revenue in twelve markets (California, Colorado, Connecticut, Florida, Illinois, Maryland, Massachusetts, Nevada, New Jersey, New York, Ohio, and Pennsylvania).

On June 12, 2018, the Company completed a reverse takeover transaction (“RTO”) as further described in Note 3 of Green Thumb’s Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on April 15, 2020 (“2019 Form 10-K”). Following the RTO, the Company was listed on the Canadian Securities Exchange (the “CSE”) under ticker symbol “GTII” and on the OTCQX, part of the OTC Markets Group, under the ticker “GTBIF”.

The Company’s registered office is located at 885 West Georgia Street, Suite 2200, Vancouver, British Columbia, V6C 3E8, Canada. The Company’s U.S. headquarters are at 325 W. Huron St., Suite 700, Chicago, IL 60654.

(b) Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements include the accounts of Green Thumb Industries Inc. and have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and in accordance with the rules and regulations of the SEC. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and, accordingly, certain information, footnotes and disclosures normally included in the annual financial statements, prepared in accordance with GAAP, have been condensed or omitted in accordance with SEC rules and regulations. The financial data presented herein should be read in conjunction with the audited consolidated and combined financial statements and accompanying notes included in the 2019 Form 10-K. In the opinion of management, the financial data presented includes all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. Results of interim periods should not be considered indicative of the results for the full year. These unaudited interim condensed consolidated financial statements include estimates and assumptions of management that affect the amounts reported in the unaudited condensed consolidated financial statements. Actual results could differ from these estimates.

Certain previously reported amounts have been reclassified between line items to conform to the current presentation. The reclassifications did not affect the Company’s previously reported consolidated balance sheets, consolidated statements of operations, statements of cash flows or statements of changes in shareholders’ equity.

The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2020.

(c) Significant Accounting Policies

There have been no changes to the Company’s significant accounting policies as described in Note 2 of the Company’s 2019 Form 10-K.

Green Thumb Industries Inc.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(Amounts Expressed in United States Dollars, Except Where Stated Otherwise)

1. Overview and Basis of Presentation (Continued)

(d) Earnings (Loss) per Share

Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to shareholders by the weighted average number of common shares (Subordinate Voting Shares, Multiple Voting Shares on an as converted basis, and Super Voting Shares on an as converted basis) outstanding during each of the periods presented. Contingently issuable shares (including shares held in escrow) are not considered outstanding common shares and consequently are not included in the basic earnings (loss) per share calculations. Diluted earnings (loss) per share is calculated using the treasury stock method by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has three categories of potentially dilutive common share equivalents: restricted stock units, stock options and warrants. At September 30, 2020, the Company had 5,782,599 options, 688,507 restricted stock units and 2,520,794 warrants outstanding. At September 30, 2019, the Company had 6,031,833 options, 1,479,038 restricted stock units and 2,041,735 warrants outstanding.

In order to determine diluted earnings (loss) per share, it is assumed that any proceeds from the exercise of dilutive unvested restricted stock units, stock options, and warrants would be used to repurchase common shares at the average market price during the period. Under the treasury stock method, the diluted loss per share calculation excludes any potential exercise of restricted stock units, stock options or warrants that would decrease loss per share. For the three months ended September 30, 2020, the computation of diluted loss per share included 1,928,946 options, 151,458 restricted stock units and 141,482 warrants. No potentially dilutive common share equivalents were included in the computation of diluted loss per share for the three months ended September 30, 2019 and nine months ended September 30, 2020 and 2019 because their impact was anti-dilutive.

(e) Recently Adopted Accounting Standards

- (i) In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which replaces the incurred loss model with a current expected credit loss (“CECL”) model and requires consideration of a broader range of reasonable and supportable information to explain credit loss estimates. This standard applies to financial assets, measured at amortized cost, including loans, held-to-maturity debt securities, net investments in leases and trade accounts receivable. The guidance must be adopted using a modified retrospective transition method through a cumulative-effect adjustment to retained earnings in the period of adoption. The Company adopted the new standard in the first quarter of 2020. The adoption of the standard did not have a material impact on the Company’s unaudited interim condensed consolidated financial statements.
- (ii) In January 2017, the FASB issued Accounting Standards Update No. 2017-04 “Intangibles— Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”), which simplifies the accounting for goodwill impairment. ASU 2017-04 requires entities to record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (Step 1 under the current impairment test). The standard eliminates Step 2 from the current goodwill impairment test, which included determining the implied fair value of goodwill and comparing it with the carrying amount of that goodwill. ASU 2017-04 must be applied prospectively and is effective in the first quarter of 2020. Early adoption is permitted. The Company adopted the new standard in the first quarter of 2020. The adoption of the standard did not have a material impact on the Company’s unaudited interim condensed consolidated financial statements.

Green Thumb Industries Inc.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
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1. Overview and Basis of Presentation (Continued)

(e) Recently Adopted Accounting Standards (Continued)

- (iii) In August 2018, the FASB issued ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820) (“ASU 2018-13”). ASU 2018-13 adds, modifies, and removes certain fair value measurement disclosure requirements. ASU 2018-13 is effective for annual and interim periods beginning after December 15, 2019. The Company adopted the new standard in the first quarter of 2020. The adoption of the standard did not have a material impact on the Company’s unaudited interim condensed consolidated financial statements.

(f) Recently Issued Accounting Standards

- (i) In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes, which is intended to simplify various aspects related to accounting for income taxes (“ASU 2019-12”). ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for the Company beginning January 1, 2021. The Company is currently evaluating the effect of adopting this ASU on the Company’s financial statements.
- (ii) In January 2020, the FASB issued ASU 2020-01, Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) (“ASU 2020-01”), which is intended to clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for the Company beginning January 1, 2021. The Company is currently evaluating the effect of adopting this ASU on the Company’s financial statements.
- (iii) On August 5, 2020, the FASB issued Accounting Standards Update No. 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*, to improve financial reporting associated with accounting for convertible instruments and contracts in an entity’s own equity. The amendments in this Update are effective for public business entities that meet the definition of a Securities and Exchange Commission (“SEC”) filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The FASB specified that an entity should adopt the guidance as of the beginning of its annual fiscal year. The Company is currently evaluating the effect of adopting this ASU on the Company’s financial statements.

Green Thumb Industries Inc.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(Amounts Expressed in United States Dollars, Except Where Stated Otherwise)

1. Overview and Basis of Presentation (Continued)

(g) Coronavirus Pandemic

In March 2020, the World Health Organization categorized coronavirus disease 2019 (“COVID-19”) as a pandemic. COVID-19 continues to spread throughout the U.S. and other countries across the world, and the duration and severity of its effects are currently unknown. The Company is implementing and evaluating actions to strengthen its financial position and support the continuity of its business and operations.

The Company’s unaudited interim condensed consolidated financial statements presented herein reflect estimates and assumptions made by management that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited interim condensed consolidated financial statements and reported amounts of revenue and expenses during the periods presented. Such estimates and assumptions affect, among other things, the Company’s goodwill, long-lived assets and intangible assets; operating lease right of use assets and operating lease liabilities; assessment of the annual effective tax rate; valuation of deferred income taxes; the allowance for doubtful accounts; assessment of the Company’s lease and non-lease contract expenses; and measurement of compensation cost for bonus and other compensation plans. While the Company’s revenue, gross profit and operating income were not impacted during the first nine months of 2020, the uncertain nature of the spread of COVID-19 may impact the Company’s business operations for reasons including the potential quarantine of the Company’s employees or those of its supply chain partners, and the Company’s continued designation as an “essential” business in states where the Company does business that currently or in the future impose restrictions on its business operations. The estimates and assumptions used in the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2020 include, but are not limited to certain judgmental reserves requiring management to makes estimates based on current information. The carrying value of the Company’s goodwill and other long-lived assets, may change in future periods as the expected impacts from COVID-19 are revised, resulting in further potential impacts to the Company’s financial statements.

2. INVENTORIES

The Company’s inventories include the following at September 30, 2020 and December 31, 2019:

| | September 30, 2020 | December 31, 2019 |
|--------------------------------|-------------------------------|------------------------------|
| Raw Material | \$ 3,603,977 | \$ 6,375,032 |
| Packaging and Miscellaneous | 6,173,017 | 4,887,970 |
| Work in Process | 24,945,006 | 20,162,723 |
| Finished Goods | 22,430,016 | 16,640,629 |
| Reserve for Obsolete Inventory | <u>(1,987,758)</u> | <u>(2,031,873)</u> |
| Total Inventories | <u>\$55,164,258</u> | <u>\$46,034,481</u> |

Green Thumb Industries Inc.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(Amounts Expressed in United States Dollars, Except Where Stated Otherwise)

3. PROPERTY AND EQUIPMENT

At September 30, 2020, property and equipment consisted of the following:

| <u>Cost</u> | <u>Land</u> | <u>Buildings and Improvements</u> | <u>Equipment, Computers and Furniture</u> | <u>Leasehold Improvements</u> | <u>Capitalized Interest</u> | <u>Assets Under Construction</u> | <u>Total</u> |
|---------------------------------|--------------------|-----------------------------------|---|-------------------------------|-----------------------------|----------------------------------|----------------------|
| As at January 1, 2020 | \$3,272,439 | \$33,377,471 | \$35,509,871 | \$68,681,497 | \$2,500,000 | \$21,372,116 | \$164,713,394 |
| Additions | 586,867 | 21,128,482 | 4,794,342 | 12,413,970 | 342,966 | 6,118,878 | 45,385,505 |
| Disposals | (979,930) | (4,507,086) | — | — | — | (6,978,389) | (12,465,405) |
| As at September 30, 2020 | <u>\$2,879,376</u> | <u>\$49,998,867</u> | <u>\$40,304,213</u> | <u>\$81,095,467</u> | <u>\$2,842,966</u> | <u>\$20,512,605</u> | <u>\$197,633,494</u> |
| <u>Accumulated Depreciation</u> | | | | | | | |
| As at January 1, 2020 | \$ — | \$ 2,236,254 | \$ 3,882,178 | \$ 2,998,287 | \$ — | \$ — | \$ 9,116,719 |
| As at September 30, 2020 | \$ — | \$ 2,939,951 | \$ 8,375,318 | \$ 8,426,333 | \$ 166,800 | \$ — | \$ 19,908,402 |
| <u>Net book value</u> | | | | | | | |
| As at January 1, 2020 | \$3,272,439 | \$31,141,217 | \$31,627,693 | \$65,683,210 | \$2,500,000 | \$21,372,116 | \$155,596,675 |
| As at September 30, 2020 | \$2,879,376 | \$47,058,916 | \$31,928,895 | \$72,669,134 | \$2,676,166 | \$20,512,605 | \$177,725,092 |

At December 31, 2019, property and equipment consisted of the following:

| <u>Cost</u> | <u>Land</u> | <u>Buildings and Improvements</u> | <u>Equipment, Computers and Furniture</u> | <u>Leasehold Improvements</u> | <u>Capitalized Interest</u> | <u>Assets Under Construction</u> | <u>Total</u> |
|---------------------------------|---------------------|-----------------------------------|---|-------------------------------|-----------------------------|----------------------------------|----------------------|
| As at January 1, 2019 | \$ 2,243,085 | \$ 20,861,988 | \$11,001,498 | \$18,435,893 | \$ — | \$16,664,958 | \$ 69,207,422 |
| Additions | 4,393,030 | 28,217,500 | 23,109,209 | 38,002,678 | 2,500,000 | 4,678,084 | 100,900,501 |
| Additions from acquisitions | — | — | 4,253,362 | 12,242,926 | — | 29,074 | 16,525,362 |
| Disposals | (3,363,676) | (15,702,017) | \$(2,854,198) | — | — | — | (21,919,891) |
| As at December 31, 2019 | <u>\$ 3,272,439</u> | <u>\$ 33,377,471</u> | <u>\$35,509,871</u> | <u>\$68,681,497</u> | <u>\$2,500,000</u> | <u>\$21,372,116</u> | <u>\$164,713,394</u> |
| <u>Accumulated Depreciation</u> | | | | | | | |
| As at January 1, 2019 | \$ — | \$ 1,351,230 | \$ 1,524,114 | \$ 1,007,998 | \$ — | \$ — | \$ 3,883,342 |
| As at December 31, 2019 | \$ — | \$ 2,236,254 | \$ 3,882,178 | \$ 2,998,287 | \$ — | \$ — | \$ 9,116,719 |
| <u>Net book value</u> | | | | | | | |
| As at January 1, 2019 | \$ 2,243,085 | \$ 19,510,758 | \$ 9,477,384 | \$17,427,895 | \$ — | \$16,664,958 | \$ 65,324,080 |
| As at December 31, 2019 | \$ 3,272,439 | \$ 31,141,217 | \$31,627,693 | \$65,683,210 | \$2,500,000 | \$21,372,116 | \$155,596,675 |

Assets under construction represent construction in progress related to both cultivation and dispensary facilities not yet completed or otherwise not ready for use.

Depreciation expense for the three and nine months ended September 30, 2020 totaled \$2,003,585 and \$11,193,570, respectively of which \$311,315 and \$5,571,477, respectively, is included in cost of goods sold. Depreciation expense for the three and nine months ended September 30, 2019 totaled \$2,494,601 and \$5,113,195, respectively of which \$1,732,146 and \$3,541,236, respectively, is included in cost of goods sold.

On January 31, 2020, the Company closed a sale and lease back transaction to sell its Toledo, Ohio processing facility to Innovative Industrial Properties (“IIP”). Under the long-term agreement, the Company will lease back the facility and continue to operate and manage it. As a result of the sale, the Company disposed of \$205,000 of land and \$2,695,000 of construction in progress. There was no gain or loss on the sale.

On March 6, 2020, the Company closed a sale and lease back transaction to sell its Oglesby, Illinois cultivation and processing facility to IIP. Under the long-term agreement, the Company will lease back the facility and continue to operate and manage it. As a result of the sale, the Company disposed of \$774,930 of land, \$4,507,086 of buildings and improvements and \$3,813,636 of construction in progress. The Company recognized a gain on the sale of Oglesby facility of \$239,096 which was recorded within other income (expense) on the unaudited interim condensed consolidated statement of operations.

For further information regarding these transactions, see Note 5 - Leases.

Green Thumb Industries Inc.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
(Amounts Expressed in United States Dollars, Except Where Stated Otherwise)

4. INTANGIBLE ASSETS AND GOODWILL

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangibles is provided on a straight-line basis over their estimated useful lives. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

At September 30, 2020 intangible assets consisted of the following:

| | <u>Licenses and Permits</u> | <u>Tradenames</u> | <u>Customer Relationships</u> | <u>Non- Competition Agreements</u> | <u>Total</u> |
|--|---------------------------------|-------------------|-----------------------------------|--|---------------|
| Cost | | | | | |
| As at January 1, 2020 | \$336,954,213 | \$97,455,590 | \$25,258,000 | \$2,585,480 | \$462,253,283 |
| Adjustments to Purchase Price Allocation | (145,000) | 1,840,009 | — | — | 1,695,009 |
| As at September 30, 2020 | \$336,809,213 | \$99,295,599 | \$25,258,000 | \$2,585,480 | \$463,948,292 |
| Accumulated Amortization | | | | | |
| As at January 1, 2020 | \$ 18,477,500 | \$ 4,121,800 | \$ 3,932,416 | \$ 474,669 | \$ 27,006,385 |
| Amortization | 17,701,556 | 6,412,282 | 2,777,802 | 394,750 | 27,286,390 |
| As at September 30, 2020 | \$ 36,179,056 | \$10,534,082 | \$ 6,710,218 | \$ 869,419 | \$ 54,292,775 |
| Net book value | | | | | |
| As at January 1, 2020 | \$318,476,713 | \$93,333,790 | \$21,325,584 | \$2,110,811 | \$435,246,898 |
| As at September 30, 2020 | \$300,630,157 | \$88,761,517 | \$18,547,782 | \$1,716,061 | \$409,655,517 |

At December 31, 2019 intangible assets consisted of the following:

| | <u>Licenses and Permits</u> | <u>Tradenames</u> | <u>Customer Relationships</u> | <u>Non- Competition Agreements</u> | <u>Total</u> |
|---------------------------------|---------------------------------|-------------------|-----------------------------------|--|---------------|
| Cost | | | | | |
| As at January 1, 2019 | \$ 89,705,213 | \$ 360,000 | \$ 820,000 | \$ 20,480 | \$ 90,905,693 |
| Additions from acquisitions | 247,249,000 | 97,095,590 | 24,438,000 | 2,565,000 | 371,347,590 |
| As at December 31, 2019 | \$336,954,213 | \$97,455,590 | \$25,258,000 | \$2,585,480 | \$462,253,283 |
| Accumulated Amortization | | | | | |
| As at January 1, 2019 | \$ 2,322,715 | \$ — | \$ 204,500 | \$ 12,800 | \$ 2,540,015 |
| Amortization | 16,154,785 | 4,121,800 | 3,727,916 | 461,869 | 24,466,370 |
| As at December 31, 2019 | \$ 18,477,500 | \$ 4,121,800 | \$ 3,932,416 | \$ 474,669 | \$ 27,006,385 |
| Net book value | | | | | |
| As at January 1, 2019 | \$ 87,382,498 | \$ 360,000 | \$ 615,500 | \$ 7,680 | \$ 88,365,678 |
| As at December 31, 2019 | \$318,476,713 | \$93,333,790 | \$21,325,584 | \$2,110,811 | \$435,246,898 |

The Company recorded amortization expense for the three and nine months ended September 30, 2020 of \$9,531,290 and \$27,286,390, respectively, and for the three and nine months ended September 30, 2019 of \$5,419,212, and \$12,415,696, respectively. During the second quarter of 2020, the Company recorded a measurement period adjustment in connection with its June 27, 2019 acquisition of MC Brands, LLC of \$1,840,009 which increased intangible assets and share capital. The remainder of the adjustments to purchase price allocations relate to the finalization of several 2019 acquisitions.

In addition, the Company reviewed the estimated useful lives of its intangible assets as part of the Company's plans to rebrand one of its retail stores. Based on that review, the Company determined that certain intangible assets associated with the Company's retail tradenames have a useful life shorter than initially estimated.

Green Thumb Industries Inc.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
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4. INTANGIBLE ASSETS AND GOODWILL (Continued)

Beginning July 1, 2020, the Company adjusted the useful life of its retail tradename associated with the acquisition of Essence from 15 years to 7 years. The change in useful life was made as a prospective adjustment and resulted in an increase in amortization expense of \$1,266,880 for the remainder of 2020, \$5,067,520 annually for years 2021 through 2024, and a net reduction in amortization expense of \$21,536,960 thereafter.

The following table outlines the estimated annual amortization expense related to intangible assets as of September 30, 2020 and illustrates the effect of the change in useful life of the Essence tradename discussed above:

| Year Ending December 31, | Estimated Amortization (Prior to Change in Useful Life) | Increase (Decrease) from Change in Useful Life | Estimated Amortization (After Change in Useful Life) |
|--------------------------|---|--|---|
| Remainder of 2020 | \$ 8,426,261 | \$ 1,266,880 | \$ 9,693,141 |
| 2021 | 33,705,044 | 5,067,520 | 38,772,564 |
| 2022 | 33,274,305 | 5,067,520 | 38,341,825 |
| 2023 | 33,191,489 | 5,067,520 | 38,259,009 |
| 2024 | 32,610,156 | 5,067,520 | 37,677,676 |
| Thereafter | 268,448,262 | (21,536,960) | 246,911,302 |
| | <u>\$409,655,517</u> | <u>\$ —</u> | <u>\$409,655,517</u> |

Goodwill

At September 30, 2020, Goodwill consisted of the following:

| | Retail | Consumer Packaged Goods | Total |
|---|----------------------|----------------------------|----------------------|
| As at January 1, 2020 | \$119,873,759 | \$ 255,211,232 | \$375,084,991 |
| Adjustments to Purchase Price Allocations | 1,191,425 | (3,194,700) | (2,003,275) |
| As at September 30, 2020 | <u>\$121,065,184</u> | <u>\$ 252,016,532</u> | <u>\$373,081,716</u> |

At December 31, 2019, Goodwill consisted of the following:

| | Retail | Consumer Packaged Goods | Total |
|---|----------------------|----------------------------|----------------------|
| As at January 1, 2019 | \$ 15,286,360 | \$ 23,918,000 | \$ 39,204,360 |
| Acquisition of Advanced Grow Labs, LLC | 16,756,250 | 44,572,349 | 61,328,599 |
| Acquisition of Integral Associates, LLC | 46,655,753 | 69,323,570 | 115,979,323 |
| Other Acquisitions | 32,936,590 | 120,963,598 | 153,900,188 |
| Adjustments to Purchase Price Allocations | 8,238,808 | (3,566,285) | 4,672,523 |
| As at December 31, 2019 | <u>\$119,873,759</u> | <u>\$ 255,211,232</u> | <u>\$375,084,991</u> |

During the nine months ended September 30, 2020, the Company recorded measurement period adjustments resulting in a net decrease in goodwill of \$2,003,275 associated with various acquisitions. In regard to the Consumer Packaged Goods segment, the Company recorded measurement period adjustments associated with its acquisition of For Success Holdings Company and Advanced Grow Labs, LLC of \$1,687,700 and \$1,507,000, respectively, which represented a reduction in the value of goodwill and deferred tax liabilities. Regarding the Retail segment, the Company recorded measurement period adjustments associated with its acquisition of Fiorello Pharmaceuticals, Inc. of \$1,000,000 which represented an increase in the value of goodwill and corresponding adjustment to current liabilities. The remainder of the adjustments to the Retail segment represent the finalization of purchase price allocations related to other 2019 acquisitions.

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5. LEASES

(a) Operating Leases Under Accounting Standards Update No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02 - Leases (Topic 842) (“ASU 2016-02”), which requires lessees to put most leases on the balance sheet but recognize expense on the income statement in a manner similar to current accounting. On January 1, 2019, the Company adopted the ASU 2016-02 and all related amendments, using the optional transition method (modified retrospective approach) applied to leases at the adoption date. Under the modified retrospective approach, comparative periods have not been restated and continue to be reported under the accounting standards in effect for those periods. Additionally, an adjustment was recorded to accumulated deficit to account for the initial adoption of the standard.

For additional information regarding the adoption of ASU 2016-02, see Note 9 – Leases in the 2019 Form 10-K.

Other information related to operating leases as of and for the three and nine months ending September 30, 2020 were as follows:

| | As of September 30, 2020 |
|---------------------------------------|-----------------------------|
| Weighted average remaining lease term | 10.81 |
| Weighted average discount rate | 13.2% |

Maturities of lease liabilities for operating leases as of September 30, 2020 were as follows:

| | Maturities of Lease Liability | | |
|---|-------------------------------|---------------------|-----------------------|
| | Third Party | Related Party | Total |
| Remainder of 2020 | \$ 4,767,957 | \$ 322,287 | \$ 5,090,244 |
| 2021 | 22,243,662 | 1,307,183 | 23,550,845 |
| 2022 | 22,285,836 | 1,337,130 | 23,622,966 |
| 2023 | 22,092,882 | 1,367,771 | 23,460,653 |
| 2024 | 21,387,294 | 1,255,714 | 22,643,008 |
| 2025 and Thereafter | 183,998,689 | 10,345,330 | 194,344,019 |
| Total Lease Payments | 276,776,320 | 15,935,415 | 292,711,735 |
| Less: Interest | (177,811,636) | (7,837,605) | (185,649,241) |
| Present Value of Lease Liability | \$ 98,964,684 | \$ 8,907,810 | \$ 107,062,494 |

For the three and nine months ended September 30, 2020 the Company recorded operating lease expense of \$6,590,553 and \$19,021,190, respectively. For the three and nine months ended September 30, 2019, the Company recorded operating lease expenses of \$1,962,561 and \$4,229,889, respectively.

(b) Related Party Operating Leases

The Company entered into related party transactions with respect to its leasing arrangements for certain facilities in Florida, Illinois, Maryland, Massachusetts and Nevada.

Wendy Berger, a director of the Company, is a principal of WBS Equities, LLC, which is the Manager of Mosaic Real Estate, LLC, and owns certain facilities leased by the Company. Additionally, Mosaic Real Estate, LLC is owned in part by Ms. Berger (through the Wendy Berger 1998 Revocable Trust), Benjamin Kovler, the Chief Executive Officer and a director of the Company (through KP Capital, LLC), and Anthony Georgiadis, the Chief Financial Officer and a director of the Company (through Three One Four Holdings, LLC). The terms of these leases range from 7 years to 15 years. For the three

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5. LEASES (Continued)

(b) Related Party Operating Leases (Continued)

and nine months ended September 30, 2020, the Company recorded lease expense of \$157,076 and \$601,753, respectively, associated with these leasing arrangements. For the three and nine month ended September 30, 2019, the Company recorded operating lease expenses of \$148,226 and \$339,961, respectively, associated with these leasing arrangements.

On June 5, 2020, a wholly owned subsidiary of the Company purchased the building and building improvements of the Company's dispensary located in Joliet, Illinois for \$1,814,000 from Mosaic Real Estate Joliet, LLC. The transaction resulted in the termination of the Illinois related party leasing arrangement. For additional information see Note 6 – Notes Payable.

In connection with the Company's acquisition of Integral Associates, LLC, the Company, through a subsidiary, leases property from Durango Teco Partners, LLC, which commenced on June 27, 2020 for an Essence retail store in Nevada. Durango Teco Partners, LLC is owned in part by Armenco Capital LLC, which is in turn owned in part by Alejandro Yemenidjian, a former owner of Integral Associates, LLC and a current director of the Company. The lease has a ten year term. For the three and nine months ended September 30, 2020, the Company recorded lease expense of \$58,332 and \$77,776, respectively, associated with this lease.

(c) Sales Lease Back Transactions

On January 31, 2020, the Company closed on a sale and lease back transaction to sell its Toledo, Ohio processing facility to IIP. Under a long-term agreement, the Company has leased back the facility and continues to operate and manage it. The purchase price for the property was \$2,900,000, excluding transaction costs. The Company is making certain improvements to the property that will significantly enhance production capacity, for which IIP has agreed to provide reimbursement of up to \$4,300,000.

Following the end of the third quarter of 2020, on October 1, 2020, the Company and IIP agreed to amend the lease on the Toledo, Ohio processing facility. Under the amendment, IIP will provide an additional \$25,000,000 in funding to be used for the construction of a cannabis cultivation facility at the property, which currently houses a separate cannabis processing facility. Assuming full payment of the additional funding, IIP's total investment in the property pursuant to the sale and leaseback transaction and related amendment will be \$32,200,000. The Company is in process of evaluating the lease amendment and will conclude on the classification, and value of the right of use asset and related lease liability in the following quarter.

On March 6, 2020, the Company closed on a sale and lease back transaction to sell its Oglesby, Illinois cultivation and processing facility to IIP. Under a long-term agreement, the Company has leased back the facility and continues to operate and manage it. The purchase price for the property was \$9,000,000, excluding transaction costs. The Company is making certain improvements to the property that will significantly enhance production capacity, for which IIP has agreed to provide reimbursement of up to \$41,000,000. Assuming full reimbursement for such improvements, IIP's total investment in the property will be \$50,000,000. The lease has a term of 16 years and was recorded as an operating lease and resulted in a right of use asset and related lease liability of \$26,828,221 and was recorded net of the improvements allowance of \$41,000,000.

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6. NOTES PAYABLE

At September 30, 2020 and December 31, 2019, notes payable consisted of the following:

| | <u>September 30, 2020</u> | <u>December 31, 2019</u> |
|---|-------------------------------|------------------------------|
| In connection with an acquisition completed in 2017, the Company is required to make quarterly charitable contributions of \$50,000 through October 2024. The net present value of these required payments has been recorded as a liability with an interest rate of 2.17%. | \$ 763,284 | \$ 970,957 |
| Private placement debt dated May 22, 2019, in the original amount of \$105,466,429 with an interest rate of 12.00%, matures on May 22, 2023. The debt was issued at a discount, the carrying value of which is \$11,618,400 as of September 30, 2020 | 93,848,029 | 90,375,912 |
| Rise Joliet mortgage dated June 5, 2020, in the original amount of \$1,814,000 with an interest rate of 5.00%, matures on June 5, 2035. The debt was issued at a discount, the carrying value of which is \$177,244 as of September 30, 2020. | 1,616,606 | — |
| Rise Lakewood mortgage dated August 20, 2020, in the original amount of \$833,000 with an interest rate of 7.25%, matures on August 20, 2025. | 831,341 | — |
| Total notes payable | 97,059,260 | 91,346,869 |
| Less: current portion of notes payable | (301,027) | (206,675) |
| Notes payable, net of current portion | <u>\$96,758,233</u> | <u>\$91,140,194</u> |

(a) Extension of Private Placement Financing

On May 21, 2020, the Company exercised its option to extend the maturity date of its senior secured notes (the “Notes”) pursuant to the Note Purchase Agreement, dated May 22, 2019, as amended (the “Note Purchase Agreement”) for an additional year. Following this exercise, which was in the Company’s sole discretion under the Note Purchase Agreement, the new maturity date for the Notes is May 22, 2023.

(b) Mortgage on Joliet, Illinois Dispensary

On June 5, 2020, the Company closed on a secured promissory note (the “Mortgage”) of \$1,814,000. The Mortgage bears interest of 5% per annum and matures on June 5, 2035. The Mortgage provided by the lender was used to purchase the building and building improvements of one of the Company’s dispensaries located in Joliet, Illinois that the Company previously leased from Mosaic Real Estate Joliet, LLC, a related party. As part of the transaction, the Company issued 35,000 warrants valued at \$181,272 using a Black Scholes Option Pricing model which were accounted for as equity and recorded as a discount on the Mortgage.

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6. NOTES PAYABLE (Continued)

(c) Mortgage on Lakewood, Ohio Dispensary

On August 20, 2020, the Company closed on a secured promissory note (the “Lakewood Mortgage”) of \$833,000. The Lakewood Mortgage bears interest of 7.25% per annum and matures on August 20, 2025. The Lakewood Mortgage provided by the lender was used to purchase the land, building and building improvements of one of the Company’s dispensaries located in Lakewood, Ohio that the company previously leased.

(d) Related Parties

The private placement debt is held by related parties as well as unrelated third-party lenders at a percentage of approximately 1% and 99%, respectively. The related parties consist of Benjamin Kovler, the Chief Executive Officer and a director of the Company (through KP Capital, LLC); Andrew Grossman, the Executive Vice President of Capital Markets of the Company (through AG Funding Group, LLC); and Anthony Georgiadis, the Chief Financial Officer and a director of the Corporation (through Three One Four Holdings, LLC and ABG, LLC).

7. WARRANTS

As part of the Company’s private placement financing and Mortgage on the Joliet, Illinois dispensary, the Company issued warrants to related parties, as well as un-related third parties, which allow the holders to purchase Subordinate Voting Shares at an exercise price determined at the time of issuance.

The following table summarizes the number warrants outstanding as of September 30, 2020 and December 31, 2019:

| | Number of Shares | Weighted Average Exercise Price (C\$) | Weighted Average Contractual Life | Number of Shares | Weighted Average Exercise Price (USD) | Weighted Average Contractual Life |
|----------------------------------|-----------------------------|---|--|--------------------------|---|--|
| | Liability Classified | | | Equity Classified | | |
| Balance as at December 31, 2019 | 2,406,811 | C\$ 18.59 | 4.86 | - | \$ - | - |
| Additional Modification Warrants | 84,924 | 14.03 | 5.00 | - | - | - |
| Dispensary Mortgage Warrants | - | - | - | 35,000 | 9.10 | 5.00 |
| Warrants Exercised | (5,941) | 12.42 | 5.00 | - | - | - |
| Balance as at September 30, 2020 | <u>2,485,794</u> | <u>C\$ 18.45</u> | <u>4.87</u> | <u>35,000</u> | <u>\$ 9.10</u> | <u>5.00</u> |

(a) Additional Modification Warrants

As part of the November 9, 2019 modification of the Notes, the Company agreed to issue 84,924 additional warrants by May 22, 2020 to participating lenders in the event the Company decided to raise additional capital or to the original lenders involved in the May 22, 2019 private placement financing in the event the Company did not. On May 21, 2020, the Company issued the warrants to the original lenders involved in the private placement financing which allows the holder to purchase 84,924 Subordinate Voting Shares. The warrants are denominated in CAD. Upon issuance, the Company recorded an additional amount to debt discount with a corresponding amount to the warrant liability of \$572,387, which was measured at fair value using the following assumptions:

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7. WARRANTS (Continued)

(a) Additional Modification Warrants (continued)

| <u>Significant Assumptions</u> | <u>May 21, 2020 (Date of Issuance)</u> |
|--------------------------------|--|
| Volatility | 100% |
| Remaining Term | 5 years |
| Risk Free Rate | 0.42% |

(b) Dispensary Mortgage Warrants

On June 5, 2020, as part of the \$1,814,000 promissory note, the Company issued warrants that allow the promissory noteholder to purchase 35,000 Subordinate Voting Shares. These warrants are denominated in USD, which is the Company's functional currency. As such, upon issuance, the Company recorded an additional amount to debt discount with a corresponding amount to contributed surplus of \$181,272 which was measured at fair value using a Black Scholes Options Pricing model. The Company did not incur any other material fees related to the promissory note.

(c) Liability Classified Warrants Outstanding

The following table summarizes the fair value of the liability classified warrants at September 30, 2020 and December 31, 2019:

| <u>Warrant Liability</u> | <u>Strike Price</u> | <u>Warrants Outstanding</u> | <u>September 30, 2020</u> | <u>December 31, 2019</u> |
|--------------------------------------|-------------------------|---------------------------------|-------------------------------|------------------------------|
| Bridge Financing Warrants | C\$22.90 | 218,964 | \$ 1,065,000 | \$ 1,385,400 |
| Private Placement Financing Warrants | C\$19.39 | 1,822,771 | 13,457,000 | 12,189,169 |
| Modification Warrants | C\$12.04 | 360,256 | 3,251,500 | 2,305,274 |
| Additional Modification Warrants | C\$14.03 | 83,803 | 739,500 | — |
| Totals | | <u>2,485,794</u> | <u>\$18,513,000</u> | <u>\$15,879,843</u> |

During the three and nine months ended September 30, 2020, the Company recorded a loss of \$3,181,114 and a loss of \$2,060,771, respectively, on the change in the fair value of the warrant liability within other income (expense) on the unaudited interim condensed consolidated statements of operations.

The following table summarizes the significant assumptions used in determining the fair value of the warrant liability as of each reporting date (see Note 13 - Fair Value Measurements for additional details):

| <u>Significant Assumptions</u> | <u>September 30, 2020</u> | <u>December 31, 2019</u> |
|--------------------------------|---------------------------|--------------------------|
| Volatility | 85.36% - 89.50% | 117.43% - 123.64% |
| Remaining Term | 2.03 - 4.64 years | 2.78 - 4.86 years |
| Risk Free Rate | 0.25% - 0.34% | 1.68% - 1.69% |

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7. WARRANTS (Continued)

(e) Equity Classified Warrants Outstanding

The following table summarizes the fair value of the equity classified warrants at September 30, 2020 and December 31, 2019:

| <u>Warrants Included in Contributed Surplus</u> | <u>Strike Price</u> | <u>Warrants Outstanding</u> | <u>September 30, 2020</u> | <u>December 31, 2019</u> |
|---|---------------------|-----------------------------|---------------------------|--------------------------|
| Dispensary Mortgage Warrants | \$9.10 | 35,000 | \$ 181,272 | \$ — |

The following table summarizes the significant assumptions used in determining the fair value of the equity classified warrants as of each reporting date:

| <u>Significant Assumptions</u> | <u>September 30, 2020</u> | <u>December 31, 2019</u> |
|--------------------------------|---------------------------|--------------------------|
| Volatility | 80% | — |
| Remaining Term | 5 years | — |
| Risk Free Rate | 0.37% | — |

8. INCOME TAXES

The following table summarizes the Company's income tax expense and effective tax rates for the three and nine months ended September 30, 2020 and September 30, 2019:

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|-----------------------------------|---|----------------|--|--------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Income/(Loss) before Income Taxes | \$39,189,341 | \$(10,713,603) | \$52,189,559 | (40,011,094) |
| Income Tax Expense | \$28,436,332 | \$ 3,624,333 | \$56,964,047 | 4,706,000 |
| Effective Tax Rate | 72.6% | -33.8% | 109.1% | -11.8% |

Historically, the Company has calculated its provision for income taxes during its interim reporting periods by applying an estimate of the annual effective tax rate for the full year "ordinary" income or loss for the respective reporting period. For the nine months ended September 30, 2020, the Company has computed its provision for income taxes under the discrete method which treats the year-to-date period as if it were the annual period and determines the income tax expense or benefit on that basis. The discrete method is applied when application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. We believe that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as the estimated annual effective tax rate method is not reliable due to the high degree of uncertainty in estimating annual pre-tax income due to the early growth stage of the business.

Due to its cannabis operations, the Company is subject to the limitations of Internal Revenue Code ("IRC") Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

The effective tax rate for the three and nine months ended September 30, 2020 varies widely from the three and nine months ended September 30, 2019, respectively, primarily due to the Company reporting pre-tax loss in 2019 as opposed to pre-tax income in 2020. The Company incurred a large amount of expenses that were not deductible due to IRC Section 280E limitations which resulted in income tax expense being incurred while there were pre-tax losses for the three and nine months ended September 2019.

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8. INCOME TAXES (Continued)

The Company is subject to income taxes in the United States and Canada. Significant judgment is required in evaluating the Company's uncertain tax positions and determining the provision for income taxes. The Company's gross unrecognized tax benefits were approximately \$16,264,727 and \$2,113,263 as of September 30, 2020 and December 31, 2019, respectively, recorded within Deferred Income Taxes.

The federal statute of limitation remains open for the 2017 tax year to the present. The state income tax returns generally remain open for the 2016 tax year through the present. Net operating losses arising prior to these years are also open to examination if and when utilized.

Taxes paid during the nine months ended September 30, 2020 and 2019 were \$37,820,228 and \$10,534,408, respectively.

9. INVESTMENTS

The Company holds direct equity investments in cannabis companies, some of which converted from notes which matured August 1, 2020. The following table summarizes the change in the Company's investments as of September 30, 2020:

| | <u>Convertible Notes Receivable</u> | <u>Equity</u> | <u>Total</u> |
|--------------------------------|---|---------------------|----------------------|
| Balance at January 1, 2020 | \$ 7,533,000 | \$ 6,535,821 | \$ 14,068,821 |
| Additions | — | 25,000 | 25,000 |
| Conversion of notes receivable | (7,533,000) | 7,533,000 | — |
| Fair value adjustment | — | 8,117,178 | 8,117,178 |
| Balance at September 30, 2020 | <u>\$ —</u> | <u>\$22,210,999</u> | <u>\$ 22,210,999</u> |

As of September 30, 2020, the Company updated its valuation for the notes that converted to equity as well as certain equity investments. The equity investments were valued using a market approach using the following significant assumptions:

| | <u>September 30, 2020</u> |
|------------------------------------|---------------------------|
| Discount for lack of control | 13% |
| Discount for lack of marketability | 10%-30% |

The following table summarizes the change in the Company's investments as of December 31, 2019:

| | <u>Convertible Notes Receivable</u> | <u>Equity</u> | <u>Total</u> |
|--|---|---------------------|----------------------|
| Balance at January 1, 2019 | \$ 30,336,000 | \$10,597,283 | \$ 40,933,283 |
| Fair value adjustment | (1,398,000) | (4,061,462) | (5,459,462) |
| Applied to consideration in business combination | (21,405,000) | — | (21,405,000) |
| Balance at December 31, 2019 | <u>\$ 7,533,000</u> | <u>\$ 6,535,821</u> | <u>\$ 14,068,821</u> |

The calculated fair values are recorded as a Level 3 fair value investment as of September 30, 2020 and December 31, 2019. See Note 13 - Fair Value Measurements for additional details. As of December 31, 2019, the convertible notes receivable were valued using the Binomial Lattice Model, which is based on a generalized binomial option pricing formula, using the following assumptions:

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9. INVESTMENTS (Continued)

| | December 31, 2019 |
|------------------------------------|--------------------------|
| Risk free rate | 1.58% -2.46% |
| Equity Volatility | 58% - 106% |
| Market Yield | 15% - 18% |
| Probability of Qualified Financing | 0% |
| Probability of Sale | 30% |
| Probability of No Event | 70% |

10. SHARE CAPITAL

Common shares, which include the Company's Subordinate Voting Shares, Multiple Voting Shares and Super Voting Shares, are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with Accounting Standards Codification (ASC) 740, *Income Taxes*.

(a) Authorized

The Company has the following classes of share capital, with each class having no par value:

(i) Subordinate Voting Shares

The holders of the Subordinate Voting Shares are entitled to receive dividends which may be declared from time to time and are entitled to one vote per share at meetings of the Company's shareholders. All Subordinate Voting Shares are ranked equally with regard to the Company's residual assets. The Company is authorized to issue an unlimited number of no par value Subordinate Voting Shares. During the nine months ending September 30, 2020, the shareholders of the Company converted 252,440 Multiple Voting Shares into 25,244,000 Subordinate Voting Shares and 22,953 Super Voting Shares into 2,295,300 Subordinate Voting Shares.

(ii) Multiple Voting Shares

Each Multiple Voting Share is entitled to 100 votes per share at shareholder meetings of the Company and is exchangeable for 100 Subordinate Voting Shares. At September 30, 2020, the Company had 120,910 issued and outstanding Multiple Voting Shares, which convert into 12,091,000 Subordinate Voting Shares. The Company is authorized to issue an unlimited number of Multiple Voting Shares. During the nine months ending September 30, 2020, the shareholders of the Company converted 252,440 Multiple Voting Shares into 25,244,000 Subordinate Voting Shares.

(iii) Super Voting Shares

Each Super Voting Share is entitled to 1,000 votes per share at shareholder meetings of the Company and is exchangeable for 100 Subordinate Voting Shares or one Multiple Voting Share. At September 30, 2020, the Company had 379,336 issued and outstanding Super Voting Shares which convert into 37,933,600 Subordinate Voting Shares. The Company is authorized to issue an unlimited number of Super Voting Shares. During the nine months ending September 30, 2020, the shareholders of the Company converted 22,953 Super Voting Shares into 2,295,300 Subordinate Voting Shares.

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10. SHARE CAPITAL (Continued)

(b) Issued and Outstanding

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

| | Issued and Outstanding | | |
|--|---------------------------------|------------------------------|---------------------------|
| | Subordinate Voting Shares | Multiple Voting Shares | Super Voting Shares |
| As at December 31, 2019 | 128,999,964 | 373,350 | 402,289 |
| Issuance of shares under business combinations and investments | 238,450 | — | — |
| Distribution of contingent consideration | 2,713,463 | — | — |
| Distribution of deferred shares | 1,220,548 | — | — |
| Issuance of shares for redemption of noncontrolling interests | 1,315,789 | — | — |
| Issuance of shares upon exercise of options and warrants | 71,384 | — | — |
| Issuances of shares upon vesting of RSUs | 901,023 | — | — |
| Exchange of shares | 27,539,300 | (252,440) | (22,953) |
| As at September 30, 2020 | <u>162,999,921</u> | <u>120,910</u> | <u>379,336</u> |

1. Issuance of Shares Under Business Combinations and Investments

MC Brands, LLC

On June 29, 2020, the Company issued 190,000 Subordinate Voting Shares with a value of \$1,840,009 in connection with the Company's June 27, 2019 acquisition of MC Brands, LLC. The shares issued resulted in an increase in share capital and a corresponding increase to intangible assets on the Company's unaudited interim condensed consolidated balance sheets.

KW Ventures, LLC

On February 10, 2020, the Company issued 48,450 Subordinate Voting Shares which were issued at a value of \$400,413 in connection with its January 1, 2019 acquisition of KW Ventures, LLC. Such shares were held back as part of the transaction and resulted in an increase in share capital and a reduction in accrued liabilities.

GTI New Jersey, LLC

In connection with the Company's April 23, 2019 acquisition of the non-controlling interest in GTI New Jersey, LLC, the Company agreed to award the previous minority shareholders of the entity up to \$3,000,000 in Subordinate Voting Shares. On May 7, 2020, the Company received approval from the New Jersey Department of Health to begin buildout of an additional retail dispensary. As a result, the Company recorded a current obligation and corresponding reduction to contributed surplus of \$2,000,000 representing the maximum value of the shares to be issuable to the former minority shareholders of GTI New Jersey, LLC.

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10. SHARE CAPITAL (Continued)

2. Distribution of Contingent Consideration

As of September 30, 2020, the Company issued 2,713,463 Subordinate Voting Shares to the previous owners of several entities in connection with acquisitions completed during 2019. Upon issuance, the Company recorded a reduction to contingent consideration payable and an increase in share capital. The following table represents the contingent shares issued as of September 30, 2020 in relation to each acquisition:

Contingent Shares Issued

| Transaction | Date of Transaction | September 30, 2020 | |
|------------------------------|---------------------|--------------------|---------------------|
| | | Units | Value |
| Advanced Grow Labs, LLC | February 12, 2019 | 1,396,533 | \$11,544,855 |
| For Success Holdings Company | February 21, 2019 | 779,690 | 6,686,432 |
| Integral Associates, LLC | June 5, 2019 | 537,240 | 4,654,526 |
| | | <u>2,713,463</u> | <u>\$22,885,813</u> |

3. Distribution of Deferred Shares

As a result of several acquisitions that occurred during 2019, the Company held 1,367,643 deferred shares with a value of \$16,587,798 as of December 31, 2019. The deferred shares were to be issued upon the passage of twelve to twenty-four months from the close of each transaction as defined within each respective acquisition agreement. On May 15, 2020, Green Thumb issued 101,695 Subordinate Voting Shares with a value of \$1,307,798 in connection with the Company's May 15, 2019 acquisition of Salveo. On August 12, 2020, the Company issued 472,500 Subordinate Voting Shares with a value of \$5,380,00 in connection with the Company's February 12, 2019 acquisition of Advanced Grow Labs, LLC. Additionally, on August 26, 2020, the Company issued 646,353 Subordinate Voting Shares with a value of \$8,064,668 in connection with the Company's February 21, 2019 acquisition of For Success Holdings Company. The three distributions discussed above resulted in a reduction to deferred share issuances and a corresponding increase to share capital on the Company's unaudited interim condensed consolidated statement of changes in shareholders' equity.

(c) Stock-Based Compensation

The Company operates equity settled stock-based remuneration plans for its eligible directors, officers, employees and consultants. All goods and services received in exchange for the grant of any stock-based payments are measured at their fair value unless the fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods and services received, the Company measures their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and others providing similar services, the Company measures the fair value of the services by reference to the fair value of the equity instruments granted. Equity settled stock-based payments under stock-based payment plans are ultimately recognized as an expense in profit or loss with a corresponding credit to equity.

In June 2018, the Company established the Green Thumb Industries Inc. 2018 Stock and Incentive Plan, which was amended by Amendment No. 1 thereto (as amended, the "Plan"). The maximum number of Restricted Stock Units ("RSUs") and options issued under the Plan shall not exceed 10% of the issued and outstanding shares on an as-converted basis.

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10. SHARE CAPITAL (Continued)

(c) **Stock-Based Compensation** (Continued)

The Company recognizes compensation expense for RSUs and options on a straight-line basis over the requisite service period of the award. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from the previous estimate. Any cumulative adjustment prior to vesting is recognized in the current period with no adjustment to prior periods for expense previously recognized.

Option and RSU grants generally vest over three years, and options typically have a life of five or ten years. Option grants are determined by the Compensation Committee of the Company's Board of Directors with the option price set at no less than 100% of the fair market value of a share on the date of grant.

Stock option activity is summarized as follows:

| | Number of Shares | Weighted Average Exercise Price (CAD) | Weighted Average Contractual Life (Years) | Aggregate Intrinsic Value |
|-----------------------------------|---------------------|---|---|------------------------------|
| Balance as at December 31, 2019 | 3,839,017 | 13.21 | 5.81 | \$ 218,234 |
| Granted | 2,496,511 | 9.76 | 5.00 | |
| Exercised | (65,443) | 11.02 | 3.98 | |
| Forfeited | (487,486) | 13.82 | 5.22 | |
| Balance as at September 30, 2020 | 5,782,599 | 11.69 | 5.53 | |
| Vested | 1,635,030 | 13.36 | 6.65 | |
| Exercisable at September 30, 2020 | 1,516,872 | 13.22 | 6.73 | \$ 4,601,129 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on September 30, 2020 and December 31, 2019, respectively, and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their in-the-money options on September 30, 2020 and December 31, 2019. This amount will change in future periods based on the fair market value of the Company's Subordinate Voting Shares and the number of options outstanding.

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted during the nine months ended September 30, 2020, using the following ranges of assumptions:

| | |
|-------------------------|---------------|
| Risk-free interest rate | 0.36% - 2.33% |
| Expected dividend yield | 0% |
| Expected volatility | 80% - 100% |
| Expected option life | 3 – 10 years |

As the Company became publicly traded in June 2018, sufficient historical trading information was not available to determine an expected volatility rate. The volatility rate was based on comparable companies within the same industry. As permitted under ASC 718, the Company has made an accounting policy choice to account for forfeitures when they occur.

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10. SHARE CAPITAL (Continued)

(c) Stock-Based Compensation (Continued)

The following table summarizes the number of non-vested RSU awards as of September 30, 2020 and December 31, 2019 and the changes during the nine months ended September 30, 2020:

| | Number of Shares | Weighted Average Grant Date Fair Value (CAD) |
|--|------------------|--|
| Nonvested Shares at December 31, 2019 | 1,399,762 | 9.30 |
| Granted | 254,268 | 12.65 |
| Forfeited | (64,500) | 15.60 |
| Vested | (901,023) | 14.85 |
| Nonvested Shares at September 30, 2020 | 688,507 | 16.77 |

The stock-based compensation expense for the three and nine months ended September 30, 2020 and 2019 was as followed:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|----------------------------|---------------------|---------------------------|----------------------|
| | September 30, | | September 30, | |
| | 2020 | 2019 | 2020 | 2019 |
| Stock options expense | \$ 2,614,273 | \$ 1,666,465 | \$ 8,209,557 | \$ 4,248,461 |
| RSUs | 1,821,054 | 1,897,630 | 6,999,963 | 9,075,622 |
| Total Stock Based Compensation Expense | \$ 4,435,634 | \$ 3,564,095 | \$ 15,209,520 | \$ 13,324,083 |

As of September 30, 2020, \$25,815,117 of total unrecognized expense related to Stock Based Compensation awards is expected to be recognized over a weighted-average period of 1.93 years.

(d) Issuance of Shares for Redemption of Noncontrolling Interest

On August 8, 2020, the Company and its joint venture partner in Ohio Investors 2017, LLC reached an agreement allowing Green Thumb to purchase the remaining noncontrolling interest in Ohio Investors 2017, LLC from the partner. As a result, on August 31, 2020, the Company issued 1,315,789 Subordinate Voting Shares with a value of \$20,078,940 in consideration for the noncontrolling partner's interest in Ohio Investors 2017, LLC. Upon the closing of the transaction, the Company recorded a reduction to the current liability established for the purchase of the noncontrolling interest of \$11,200,000, an increase in share capital for the fair value of the noncontrolling partners interest of \$20,078,940 and a reduction to contributed capital of \$8,878,940.

11. OTHER INCOME (EXPENSE)

For the three and nine months ended September 30, 2020 and 2019 other income (expense) was comprised of the following:

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|-----------------------|---------------------------|-----------------------|
| | September 30, | | September 30, | |
| | 2020 | 2019 | 2020 | 2019 |
| Fair value adjustments on equity investments | \$ 8,134,213 | \$(1,196,676) | \$ 8,117,178 | \$ (932,983) |
| Fair value adjustments on variable note receivable | — | (5,428,542) | (815,937) | (7,424,727) |
| Fair value adjustments on warrants issued | (3,181,114) | — | (2,060,771) | — |
| Fair value adjustments on contingent consideration | 442,991 | — | 425,426 | — |
| Other | 1,036,793 | 39,678 | 1,835,670 | 388,277 |
| Total Other Income (Expense) | \$ 6,432,883 | \$ (6,585,540) | \$ 7,501,566 | \$ (7,969,433) |

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12. COMMITMENTS AND CONTINGENCIES

The Company is subject to lawsuits, investigations and other claims related to employment, commercial and other matters that arise out of operations in the normal course of business. Periodically, the Company reviews the status of each significant matter and assesses the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable, and the amount can be reliably estimated, such amount is recognized in other liabilities.

Contingent liabilities are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The Company performs evaluations to identify contingent liabilities for contracts. Contingent consideration is measured upon acquisition and is estimated using probability weighting of potential payouts. Subsequent changes in the estimated contingent consideration from the final purchase price allocation are recognized in the Company's unaudited interim condensed consolidated statement of operations.

(a) Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, sanctions, restrictions on its operations, or losses of permits that could result in the Company ceasing operations in that specific state or local jurisdiction. While management believes that the Company is in compliance with applicable local and state regulations at September 30, 2020 and December 31, 2019, cannabis and other regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

(b) Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At September 30, 2020 and December 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's consolidated operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

(c) Construction Commitments

As of September 30, 2020, the Company held approximately \$25,600,000 of open commitments to contractors primarily associated with improvements being made to one of the Company's cultivation and processing facilities. The Company expects to be reimbursed for approximately \$22,500,000 of the open commitment as part of its sale and lease back agreement with IIP.

13. FAIR VALUE MEASUREMENTS

The Company applies fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded at fair value, the Company considers all related factors of the asset by market participants in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

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13. FAIR VALUE MEASUREMENTS (Continued)

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels, and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- 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.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, due from related parties, investments, accounts payable and accrued liabilities, notes payable, derivative liability, liability for acquisition of noncontrolling interest and contingent consideration payable.

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 fair values of the Company's financial instruments associated with each of the three levels of the hierarchy are:

| | As of September 30, 2020 | | | |
|--|---------------------------------|----------------|-----------------------|-----------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Cash and Cash Equivalents | \$78,091,073 | \$ — | \$ — | \$ 78,091,073 |
| Investments | 675,594 | — | 21,535,406 | 22,210,999 |
| Liability of Redemption of Noncontrolling Interest | — | — | — | — |
| Contingent Consideration Payable | — | — | (36,315,360) | (36,315,360) |
| Warrant Liability | — | — | (18,513,000) | (18,513,000) |
| | <u>\$78,766,667</u> | <u>\$ —</u> | <u>\$(33,292,954)</u> | <u>\$ 45,473,712</u> |
| | | | | |
| | As of December 31, 2019 | | | |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Cash and Cash Equivalents | \$46,667,334 | \$ — | \$ — | \$ 46,667,334 |
| Notes Receivable | — | — | 815,937 | 815,937 |
| Investments | — | — | 14,068,821 | 14,068,821 |
| Liability of Redemption of Noncontrolling Interest | — | — | (5,500,000) | (5,500,000) |
| Contingent Consideration Payable | — | — | (58,936,739) | (58,936,739) |
| Warrant Liability | — | — | (15,879,843) | (15,879,843) |
| | <u>\$46,667,334</u> | <u>\$ —</u> | <u>\$(65,431,824)</u> | <u>\$(18,764,490)</u> |

As of December 31, 2019, the Company held an equity investment in a privately held entity that was subsequently acquired by a publicly traded entity during the third quarter of 2020. As a result of the acquisition, the Company received shares of the acquiring entity in exchange for the shares in the privately held entity. Further, the transaction resulted in a transfer of the investment from Level 3 to Level 1. As of September 30, 2020, the value of the Level 1 investment was \$675,594.

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14. VARIABLE INTEREST ENTITIES

The following table presents the summarized financial information about the Company's consolidated variable interest entities ("VIEs") which are included in the unaudited interim condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019:

| | September 30, 2020 | | | December 31, 2019 | | |
|--|---------------------------------|--------------------|----------------------------|---------------------------------|-----------------------|----------------------------|
| | Chesapeake Alternatives, LLC | Illinois Disp, LLC | Other Non-material VIEs | Chesapeake Alternatives, LLC | Illinois Disp, LLC | Other Non-material VIEs |
| Current assets | \$ 29,728,652 | \$ 2,489,118 | \$ 2,261,685 | \$ 19,455,533 | \$1,381,716 | \$ 1,352,935 |
| Non-current assets | 3,041,401 | 3,752,645 | 2,353,991 | 22,384,663 | 3,083,659 | 2,534,297 |
| Current liabilities | 21,228,691 | 898,661 | 1,108,292 | 14,219,204 | 149,498 | 783,682 |
| Non-current liabilities | 785,724 | 473,136 | 802,823 | 1,169,989 | 137,736 | 855,440 |
| Equity attributable to noncontrolling interests | 298,252 | 2,309,983 | 85,561 | 350,206 | 2,089,071 | (22,488) |
| Equity attributable to Green Thumb Industries Inc. | 10,457,386 | 2,309,983 | 2,619,001 | 6,645,263 | 2,089,070 | 2,270,598 |

The Following tables presents the summarized financial information about the Company's VIEs which are included in the unaudited interim condensed consolidated statements of operations for the three and nine months ended September 30, 2020 and 2019:

| | Three Months Ended | | | | | |
|---|---------------------------------|---------------------|----------------------------|---------------------------------|-----------------------|----------------------------|
| | September 30, 2020 | | | September 30, 2019 | | |
| | Chesapeake Alternatives, LLC | Illinois Disp, LLC | Other Non-material VIEs | Chesapeake Alternatives, LLC | Illinois Disp, LLC | Other Non-material VIEs |
| Revenues | \$ 5,684,349 | \$ 5,224,583 | \$ 2,695,781 | \$ 4,369,436 | \$1,620,065 | \$ 689,097 |
| Net income (loss) attributable to noncontrolling interests | 26,134 | 897,494 | 185,452 | 1,807,394 | 185,930 | (1,624,850) |
| Net income (loss) attributable to Green Thumb Industries Inc. | 1,033,650 | 897,494 | 294,969 | (971,880) | 185,931 | 1,059,653 |
| Net income (loss) | <u>\$ 1,059,784</u> | <u>\$ 1,794,988</u> | <u>\$ 480,421</u> | <u>\$ 835,514</u> | <u>\$ 371,860</u> | <u>\$ (565,197)</u> |

| | Nine Months Ended | | | | | |
|---|---------------------------------|---------------------|----------------------------|---------------------------------|---------------------|----------------------------|
| | September 30, 2020 | | | September 30, 2019 | | |
| | Chesapeake Alternatives, LLC | Illinois Disp, LLC | Other Non-material VIEs | Chesapeake Alternatives, LLC | Illinois Disp, LLC | Other Non-material VIEs |
| Revenues | \$ 14,792,710 | \$ 13,170,514 | \$ 6,778,501 | \$ 12,458,427 | \$ 4,174,045 | \$ 2,373,042 |
| Net income (loss) attributable to noncontrolling interests | 206,929 | 2,170,912 | 319,511 | 2,244,546 | 506,972 | (2,307,097) |
| Net income (loss) attributable to Green Thumb Industries Inc. | 3,812,121 | 2,170,913 | 661,341 | — | 506,972 | — |
| Net income (loss) | <u>\$ 4,019,050</u> | <u>\$ 4,341,825</u> | <u>\$ 980,852</u> | <u>\$ 2,244,546</u> | <u>\$ 1,013,943</u> | <u>\$ (2,307,097)</u> |

As of September 30, 2020, and December 31, 2019, VIEs included in the Other Non-material VIEs are Bluepoint Wellness of Westport LLC and Meshow, LLC. As of September 30, 2019, VIEs included in the Other Non-material VIEs are Meshow, LLC, KW Ventures Holdings, LLC and Ohio Investors 2017, LLC. All of these entities were determined to be VIEs as the Company possesses the power to direct activities through management services agreements.

15. SEGMENT REPORTING

The Company operates in two segments: the cultivation, production and sale of cannabis products to retail stores ("Consumer Packaged Goods") and retailing of cannabis to patients and consumers ("Retail"). The Company does not allocate operating expenses to these business units, nor does it allocate specific assets. Additionally, the Chief Operating Decision Maker does not review total assets or net income (loss) by segments; therefore, such information is not presented below.

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15. SEGMENT REPORTING (Continued)

The below table presents revenues by type for the three and nine months ended September 30, 2020 and 2019:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------------|------------------------------------|----------------------|
| | 2020 | 2019 | 2020 | 2019 |
| <i>Revenues, Net of Discounts</i> | | | | |
| Consumer Packaged Goods | \$ 74,702,069 | \$ 35,093,858 | \$ 177,355,614 | \$ 71,651,968 |
| Retail | 111,948,115 | 43,532,286 | 275,451,137 | 85,501,646 |
| Intersegment Eliminations | (29,546,343) | (10,635,237) | (73,460,384) | (16,522,767) |
| Total Revenues, net of discounts | <u>\$157,103,841</u> | <u>\$ 67,990,907</u> | <u>\$379,346,367</u> | <u>\$140,630,847</u> |
| <i>Depreciation and Amortization</i> | | | | |
| Consumer Packaged Goods | \$ 10,029,857 | \$ 7,226,614 | \$ 33,089,808 | \$ 16,100,635 |
| Retail | 1,505,019 | 687,199 | 5,309,152 | 1,428,256 |
| Intersegment Eliminations | — | — | — | — |
| Total Depreciation and Amortization | <u>\$ 11,534,876</u> | <u>\$ 7,913,813</u> | <u>\$ 38,479,960</u> | <u>\$ 17,528,891</u> |
| <i>Income Taxes</i> | | | | |
| Consumer Packaged Goods | \$ 12,928,449 | \$ 1,072,333 | \$ 23,553,449 | \$ 1,761,333 |
| Retail | 15,507,883 | 5,128,000 | 33,410,598 | 9,028,000 |
| Intersegment Eliminations and Corporate | — | (2,576,000) | — | (6,083,333) |
| Total Income Taxes | <u>\$ 28,436,332</u> | <u>\$ 3,624,333</u> | <u>\$ 56,964,047</u> | <u>\$ 4,706,000</u> |

Goodwill assigned to the Consumer Packaged Goods segment as of September 30, 2020 and December 31, 2019 was \$252,016,532 and \$255,211,232, respectively. Intangible assets, net assigned to the Consumer Packaged Goods segment as of September 30, 2020 and December 31, 2019 was \$215,986,854 and \$228,244,254, respectively.

Goodwill assigned to the Retail segment as of September 30, 2020 and December 31, 2019 was \$121,065,184 and \$119,873,759, respectively. Intangible assets, net assigned to the Retail segment as of September 30, 2020 and December 31, 2019 was \$193,668,663 and \$207,002,644, respectively.

The Company's assets are aggregated into two reportable segments (Retail and Consumer Packaged Goods). For the purposes of testing goodwill, Green Thumb has identified 22 reporting units. The Company determined its reporting units by first reviewing the operating segments based on the geographic areas in which Green Thumb conducts business (or each market). The markets were then further divided into reporting units based on the market operations (Retail and Consumer Packaged Goods) which were primarily determined based on the licenses each market holds. All revenues are derived from customers domiciled in the United States and all assets are located in the United States.