

CRESCO LABS INC.

**UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED
JUNE 30, 2021 AND 2020**

(Expressed in United States Dollars)

Cresco Labs Inc.

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Cresco Labs Inc.
Unaudited Condensed Interim Consolidated Balance Sheets
As of June 30, 2021 and December 31, 2020
(In thousands of United States Dollars, except for share amounts)

	June 30, 2021	December 31, 2020*
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 131,040	\$ 136,339
Restricted cash	4,193	4,435
Accounts receivable, net	40,448	29,943
Inventory, net	102,931	67,183
Loans receivable, short-term	4,605	2,438
Other current assets	10,527	9,129
Total current assets	293,744	249,467
Non-current assets:		
Property and equipment, net	298,565	228,804
Right-of-use assets	79,258	71,794
Intangible assets, net	335,460	195,541
Loans receivable, long-term	2,206	21,223
Investments	9,378	4,360
Goodwill	564,210	450,569
Deferred tax asset	8,402	7,130
Other non-current assets	4,188	3,708
Total non-current assets	1,301,667	983,129
TOTAL ASSETS	\$ 1,595,411	\$ 1,232,596
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 21,985	\$ 23,231
Accrued liabilities	79,267	130,469
Short-term borrowings	28,056	25,924
Income tax payable	18,923	36,067
Current portion of lease liabilities	18,118	18,040
Deferred consideration, contingent consideration and other payables, short-term	28,297	19,115
Total current liabilities	194,646	252,846
Non-current liabilities:		
Long-term notes payable and loans payable	264,270	255,439
Derivative liabilities, long-term	15,319	17,505
Lease liabilities	102,943	74,468
Deferred tax liability	71,105	41,202
Deferred consideration and contingent consideration, long-term	7,943	7,247
Other long-term liabilities	8,557	8,557
Total non-current liabilities	470,137	404,418
TOTAL LIABILITIES	664,783	657,264
COMMITMENTS AND CONTINGENCIES (Note 15)		
SHAREHOLDERS' EQUITY		
Super Voting Shares (500,000 Shares authorized, issued and outstanding at June 30, 2021 and December 31, 2020, respectively)	—	—
Subordinate Voting Shares (Shares authorized, issued and outstanding at June 30, 2021: unlimited, 246,493,975 and 246,493,975, respectively, at December 31, 2020: unlimited, 194,086,000 and 194,086,000, respectively)	—	—
Proportionate Voting Shares ¹ (Shares authorized, issued and outstanding at June 30, 2021: unlimited, 21,081,172 and 21,081,172, respectively, at December 31, 2020: unlimited, 29,311,088 and 29,311,088, respectively)	—	—
Special Subordinate Voting Shares ² (Shares authorized, issued and outstanding at June 30, 2021 and December 31, 2020: unlimited, 639 and 639, respectively)	—	—
Share capital	1,363,693	826,350
Additional paid-in capital	54,242	(24,086)
Accumulated other comprehensive loss	(500)	(647)
Accumulated deficit	(534,653)	(328,380)
Equity of Cresco Labs Inc.	882,782	473,237
Non-controlling interests	47,846	102,095
TOTAL SHAREHOLDERS' EQUITY	930,628	575,332
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,595,411	\$ 1,232,596

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

²SSVS presented on an "as-converted" basis to SVS (1-to-0.00001)

*Derived from audited financial statements

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

Cresco Labs Inc.
Unaudited Condensed Interim Consolidated Statements of Operations
For the Three and Six Months Ended June 30, 2021 and 2020
(In thousands of United States Dollars, except for share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue, net	\$ 209,975	\$ 94,256	\$ 388,412	\$ 160,636
Costs of goods sold	108,994	62,469	200,408	105,261
Gross profit	100,981	31,787	188,004	55,375
Operating expenses:				
Selling, general and administrative	86,109	52,725	156,894	104,101
Income (loss) from operations	14,872	(20,938)	31,110	(48,726)
Other (expense) income:				
Interest expense, net	(11,481)	(7,732)	(22,783)	(14,528)
Other income, net	12,725	73	385	10,528
Income (loss) from equity method investments	—	24	(1,196)	(120)
Total other (expense) income, net	1,244	(7,635)	(23,594)	(4,120)
Income (loss) before income taxes	16,116	(28,573)	7,516	(52,846)
Income tax expense	(13,463)	(13,126)	(28,987)	(24,314)
Net income (loss)	2,653	(41,699)	(21,471)	(77,160)
Net income (loss) attributable to non-controlling interests, net of tax	7,480	(5,266)	12,749	(14,182)
Net loss attributable to Cresco Labs Inc.	\$ (4,827)	\$ (36,433)	\$ (34,220)	\$ (62,978)
Net loss per share - attributable to Cresco Labs Inc. shareholders				
Basic and diluted loss per share	\$ (0.02)	\$ (0.18)	\$ (0.14)	\$ (0.31)
Basic and diluted weighted-average number of shares outstanding	260,039,695	206,349,166	248,932,086	202,165,548

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

Cresco Labs Inc.
Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss
For the Three and Six Months Ended June 30, 2021 and 2020
(In thousands of United States Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 2,653	\$ (41,699)	\$ (21,471)	\$ (77,160)
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences, net of tax	(207)	(532)	147	(366)
Total comprehensive income (loss) for the period	2,446	(42,231)	(21,324)	(77,526)
Comprehensive income (loss) attributable to non-controlling interests, net of tax	7,480	(5,266)	12,749	(14,182)
Total comprehensive (loss) attributable to Cresco Labs Inc.	<u>\$ (5,034)</u>	<u>\$ (36,965)</u>	<u>\$ (34,073)</u>	<u>\$ (63,344)</u>

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

Cresco Labs Inc.
Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2021 and 2020
(In thousands of United States Dollars)

	Share capital	Additional Paid-in Capital	Accumulated Deficit	Accumulated other comprehensive loss	Non-controlling interests	Total
Balance as of January 1, 2020	\$ 275,921	\$ 15,802	\$ (132,474)	\$ —	\$ 119,266	\$ 278,515
Exercise of options and warrants	675	(193)	—	—	—	482
Equity-based compensation	1,674	(803)	—	—	—	871
Change in ownership interest	—	—	—	—	17	17
Income tax reserve	—	(597)	(47)	—	—	(644)
Equity issued related to acquisitions	397,880	31,671	—	—	—	429,551
Cresco LLC shares redeemed and other adjustments	8,132	—	(8,429)	—	297	—
Foreign currency translation	—	—	—	166	—	166
Net income (loss)	—	—	(26,545)	—	(8,916)	(35,461)
Balance as of March 31, 2020	\$ 684,282	\$ 45,880	\$ (167,495)	\$ 166	\$ 110,664	\$ 673,497
Exercise of options and warrants	486	(372)	—	—	—	114
Equity-based compensation	2,141	3,191	—	—	—	5,332
Change in ownership interest	—	—	—	—	(266)	(266)
Income tax reserve	—	35	(51)	—	—	(16)
Employee taxes on certain share-based payment arrangements	2,681	(2,681)	—	—	—	—
Equity issued related to acquisitions	10,132	(3,786)	—	—	—	6,346
Distributions to non-controlling interest holders	—	(1,681)	—	—	(481)	(2,162)
Equity issuances	437	—	—	—	—	437
Cresco LLC shares redeemed and other adjustments	7,253	—	(6,100)	—	(1,153)	—
Foreign currency translation	—	—	—	(532)	—	(532)
Net income (loss)	—	—	(36,433)	—	(5,266)	(41,699)
Balance as of June 30, 2020	\$ 707,412	\$ 40,586	\$ (210,079)	\$ (366)	\$ 103,498	\$ 641,051

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

Cresco Labs Inc.
Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2021 and 2020
(In thousands of United States Dollars)

	Share capital	Shares to be issued or canceled	Additional Paid-in Capital	Accumulated Deficit	Accumulated other comprehensive loss	Non-controlling interests	Total
Balance as of January 1, 2021	\$ 824,477	\$ 1,873	\$ (24,086)	\$ (328,380)	\$ (647)	\$ 102,095	\$ 575,332
Exercise of options and warrants	3,897	57	(1,998)	—	—	—	1,956
Equity-based compensation	487	(275)	5,995	—	—	—	6,207
Employee taxes on certain share-based payment arrangements	7,547	—	5,592	—	—	—	13,139
Income tax reserve	—	—	—	80	—	—	80
Equity issued related to acquisitions	2,000	1,060	(1,060)	—	—	—	2,000
Private placement issuance, net of costs	120,621	—	2,848	—	—	—	123,469
Equity issuances	15,812	—	(22)	—	—	—	15,790
Distributions to non-controlling interest holders	—	—	(2,165)	—	—	(3,980)	(6,145)
Cresco LLC shares redeemed and other adjustments	93,264	—	—	(85,538)	—	(5,403)	2,323
Foreign currency translation	—	—	—	—	354	—	354
Net income (loss)	—	—	—	(29,393)	—	5,269	(24,124)
Balance as of March 31, 2021	\$ 1,068,105	\$ 2,715	\$ (14,896)	\$ (443,231)	\$ (293)	\$ 97,981	\$ 710,381
Exercise of options and warrants	4,180	852	(2,468)	—	—	—	2,564
Equity-based compensation	4,542	—	5,181	—	—	—	9,723
Employee taxes on certain share-based payment arrangements	53	(53)	(698)	—	—	—	(698)
Income tax reserve	—	—	—	87	—	—	87
Net impact pursuant to tax receivable agreement	611	—	—	—	—	—	611
Equity issued related to acquisitions	196,203	(1,060)	18,415	—	—	—	213,558
Equity issuances	(387)	—	—	—	—	—	(387)
Distributions to non-controlling interest holders	—	—	48,708	—	—	(53,930)	(5,222)
Cresco LLC shares redeemed and other adjustments	87,932	—	—	(86,682)	—	(3,685)	(2,435)
Foreign currency translation	—	—	—	—	(207)	—	(207)
Net income (loss)	—	—	—	(4,827)	—	7,480	2,653
Balance as of June 30, 2021	\$ 1,361,239	\$ 2,454	\$ 54,242	\$ (534,653)	\$ (500)	\$ 47,846	\$ 930,628

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

Cresco Labs Inc.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2021 and 2020
(In thousands of United States Dollars)

	Six Months Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (21,471)	\$ (77,160)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	19,957	14,532
Amortization of operating lease assets	3,514	1,576
Bad debt expense and provision expense for expected credit losses	344	778
Share-based compensation expense	15,798	9,961
(Gain) loss on investments	(4,215)	553
Loss (gain) on changes in fair value of deferred and contingent consideration	8,135	(7,476)
Gain on derivative instruments and warrants	(2,712)	(3,135)
Loss, net of gains, on loan receivables	—	(292)
Loss on inventory write-offs and provision	713	1,114
Impairment loss	—	1,194
Change in deferred taxes	(12,224)	(8,192)
Accretion of discount and deferred financing costs on debt arrangements	2,983	2,207
Foreign currency loss	719	19
Acquisition termination charges settled in equity	—	1,279
(Gains) net of losses, on other adjustments to net income	(1,678)	95
Settlement gain	(810)	—
Loss on divestiture	1,149	—
Changes in operating assets and liabilities:		
Accounts receivable	(12,196)	5,986
Inventory	(14,151)	(12,483)
Other assets	(1,397)	(431)
Accounts payable and other accrued expenses	13,539	(14,031)
Operating lease liabilities	(8,020)	(4,513)
Other current liabilities	(52)	(447)
Income tax payable	(18,166)	31,124
NET CASH USED IN OPERATING ACTIVITIES	(30,241)	(57,742)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(50,690)	(47,748)
Purchases of intangibles	(2,186)	(1,167)
Proceeds from sale-leaseback transactions and tenant improvement allowances	21,731	39,221
Payment of acquisition consideration, net of cash acquired	(2,831)	(15,434)
Proceeds from divestiture, net of cash transferred	69	—
Receipts from collections of loans and advances	400	—
Loans and advances for entities to be acquired	(22,870)	(4,867)
NET CASH USED IN INVESTING ACTIVITIES	(56,377)	(29,995)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from January offering	124,105	—
Proceeds from issuance of long-term debt	—	100,000
Payment of debt, financing issuance costs and non-extending lender fees	(3,488)	(4,046)
Acquisition of non-controlling Interests	—	(203)
Proceeds from exercise of stock options, warrants and sell-to-cover shares	17,621	632
Payments for taxes related to net share settlements of restricted stock units	(143)	(697)
Proceeds from At-The-Market offering	—	241
Distributions to non-controlling interest redeemable unit holders	(55,624)	(141)
Repayment of debt	—	(550)
Proceeds from financing lease transactions	—	11,754
Principal payments on finance lease obligations	(955)	(250)
NET CASH PROVIDED BY FINANCING ACTIVITIES	81,516	106,740
Effect of foreign currency exchange rate changes on cash	(439)	658
Net increase in cash and cash equivalents	(5,541)	19,661
Cash and cash equivalents and restricted cash, beginning of period	140,774	53,009
Cash and cash equivalents, end of period	131,040	70,796
Restricted cash, end of period	4,193	1,874
Cash and cash equivalents and restricted cash, end of period	\$ 135,233	\$ 72,670

Cresco Labs Inc.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2021 and 2020
(In thousands of United States Dollars)

	Six Months Ended June 30,	
	2021	2020
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
CASH PAID DURING THE PERIOD:		
Income tax, net	\$ 59,215	\$ 1,159
Interest	22,004	11,358
NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Other share issuances	\$ 228,348	\$ 434,618
Non-cash consideration for business combination	44,789	—
Non-controlling interests redeemed for equity	9,086	856
Increase to net lease liability	16,643	51,781
Deferred and contingent consideration for acquisitions	865	—
Liability incurred to purchase property and equipment	10,238	8,385
Cashless exercise of stock options and warrants	951	357
Unpaid declared distributions to non-controlling interest redeemable unit holders	5,345	—
Receivables due from financing lease transactions	—	2,916
Liability incurred for debt, financing issuance costs, and non-extending lender fees	117	186
Issuance of shares for non-solicitation intangible asset	3,000	—

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

Cresco Labs Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2021 and 2020

NOTE 1. NATURE OF OPERATIONS

Cresco Labs Inc. (“Cresco Labs” or the “Company”), formerly known as Randsburg International Gold Corp. was incorporated in the Province of British Columbia under the Company Act (British Columbia) on July 6, 1990. The Company is one of the largest vertically-integrated multi-state cannabis operators in the United States licensed to cultivate, manufacture and sell retail and medical cannabis products primarily through Sunnyside*®, Cresco Labs’ national dispensary brand, and third-party retail stores. Employing a consumer-packaged goods approach to cannabis, Cresco Labs’ house of brands is designed to meet the needs of all consumer segments and includes some of the most recognized and trusted national brands including Cresco™, Cresco Reserve™, High Supply™, Mindy’s Edibles™, Good News™, Remedi™, Wonder Wellness Co.™ and FloraCal Farms®. The Company operates in and/or has ownership interests in Illinois, Pennsylvania, Ohio, California, Maryland, Arizona, New York, Massachusetts, Michigan and Florida, pursuant to the Illinois Compassionate Use of Medical Cannabis Pilot Program Act and the Illinois Cannabis Regulation and Tax Act, the Pennsylvania Compassionate Use of Medical Cannabis Act, the Ohio Medical Marijuana Control Program, the California Medicinal and Adult-Use Cannabis Regulation and Safety Act, the Maryland Medical Marijuana Act, the Arizona Medical Marijuana Act, the New York Compassionate Care Act, the Massachusetts Cannabis Control Commission, the Michigan Medical Marijuana Act and the Florida Compassionate Medical Cannabis Act, respectively.

On November 30, 2018, in connection with a reverse takeover (the “Transaction”), the Company (i) consolidated its outstanding Randsburg common shares on an 812.63 old for one (1) new basis, and (ii) filed an alteration to its Notice of Articles with the British Columbia Registrar of Companies to change its name from Randsburg to Cresco Labs Inc. and to amend the rights and restrictions of its existing classes of common shares, redesignate such classes as the class of Subordinate Voting Shares (“SVS”) and create the classes of Proportionate Voting Shares (“PVS”), and Super Voting Shares (“MVS”).

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

On December 3, 2018, the Company began trading on the Canadian Securities Exchange under the ticker symbol “CL.” On March 6, 2019, Cresco Labs’ shares were approved to be quoted on the Over-the-Counter Market and is traded under the ticker symbol “CRLBF.” On August 13, 2019, the Company began trading its Euro-denominated shares on the Frankfurt Stock Exchange and is trading under the symbol “6CQ.”

The Company’s head office is located at Suite 110, 400 W Erie St, Chicago, IL 60654. The registered office is located at Suite 2200, 1055 West Hastings Street, Vancouver, BC V6E 2E9.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared in accordance with accounting standards generally accepted in the United States (“U.S. GAAP”) for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to Accounting Standards Codification (“ASC”) 270 *Interim Reporting*. The financial data presented herein should be read in conjunction with the Company’s audited annual consolidated financial statements and accompanying notes as filed on SEDAR. In the opinion of management, the unaudited financial data presented includes all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. Operating results for the three and six months ended June 30, 2021 are not necessarily indicative of results that may be expected for any other reporting period.

Cresco Labs Inc.

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2021 and 2020**

These unaudited condensed interim consolidated financial statements include estimates and assumptions of management that affect the amounts reported. Actual results could differ from these estimates.

(b) Basis of Measurement

The accompanying unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain equity method investments; loans measured at fair value; and certain investments, derivative instruments, and contingent consideration, which are recorded at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets acquired and the contractual obligation for liabilities incurred.

(c) Functional and Presentation Currency

The Company's functional currency and that of the majority of its subsidiaries is the United States ("U.S.") dollar. The Company's reporting currency is the U.S. dollar. All references to "C\$" refer to Canadian dollars. Foreign currency denominated assets and liabilities are re-measured into the functional currency using period-end exchange rates. Gains and losses from foreign currency transactions are included in Other (expense) income, net in the Unaudited Condensed Interim Consolidated Statements of Operations.

Assets and liabilities of foreign operations having a functional currency other than the U.S. dollar are translated at the rate of exchange prevailing at the reporting date; revenues and expenses are translated at the monthly average rate of exchange during the period. Gains or losses on translation of foreign subsidiaries and net investments in foreign operations are included in Foreign currency translation differences, net of tax in the Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss.

(d) Significant Accounting Policies

The basis of consolidation and property and equipment useful lives have changed as described in Note 2 of the Company's annual consolidated financial statements for the year ended December 31, 2020.

i. Basis of Consolidation

The unaudited condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidation. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. The following are Cresco Labs' wholly owned or effectively controlled subsidiaries and entities over which the Company has control as of June 30, 2021.

Cresco Labs Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2021 and 2020

Entity	Location	Purpose	Percentage Held
Cresco Labs Inc.	British Columbia, Canada	Parent Company	
Cresco U.S. Corp.	Illinois	Manager of Cresco Labs, LLC	100 %
Cresco Labs, LLC	Illinois	Operating Entity	56 %
Cresco Labs Notes Issuer, LLC	Illinois	Holding Company	100 %
Gloucester Street Capital, LLC	New York	Holding Company	100 %
Valley Agriceuticals, LLC	New York	Operating Entity	100 %
MedMar Inc.	Illinois	Holding Company	100 %
MedMar Lakeview, LLC (Sunnyside* [®] - Lakeview and Sunnyside* [®] - River North)	Illinois	Dispensary	88 %
MedMar Rockford, LLC (Sunnyside* [®] - Rockford and Sunnyside* [®] - South Beloit)	Illinois	Dispensary	75 %
CannaRoyalty Corp. (Origin House)	Ontario, Canada	Holding Company	100 %
Cali-AntiFragile Corp.	California	Holding Company	100 %
Alta Supply Inc. (Continuum)	California	Distribution	100 %
Kaya Management Inc.	California	Production	100 %
RPE Inc. (Continuum)	California	Distribution	100 %
FloraCal	California	Cultivation	100 %
Cub City, LLC	California	Cultivation	100 %
CRHC Holdings Corp.	Ontario, Canada	Holding Company	100 %
Bluma Wellness Inc.	British Columbia, Canada	Holding Company	100 %
CannCure Investments Inc.	Ontario, Canada	Holding Company	100 %
Cannabis Cures Investments, LLC	Florida	Holding Company	100 %
3 Boys Farm, LLC (One Plant Florida)	Florida	Cultivation, Production and Dispensary Facility	100 %
Farm to Fresh Holdings, LLC	Florida	Cultivation, Production and Dispensary Facility	100 %
Cresco Labs Michigan, LLC (a)	Michigan	Cultivation and Production Facility	85 %

(a) Cresco Labs Michigan, LLC is 85% owned by related parties within management of the Company.

Entity	Location	Purpose	Percentage Held
Cresco Labs Notes Issuer, LLC	Illinois	Holding Company	
Cresco Labs Ohio, LLC	Ohio	Cultivation, Production and Dispensary Facility	99 %
Wellbeings, LLC	Delaware	CBD Wellness Product Development	100 %
Cresco Labs SLO, LLC	California	Holding Company	100 %
SLO Cultivation Inc.	California	Cultivation and Production Facility	80 %
Cresco Labs Joliet, LLC	Illinois	Cultivation and Production Facility	100 %
Cresco Labs Kankakee, LLC	Illinois	Cultivation and Production Facility	100 %
Cresco Labs Logan, LLC	Illinois	Cultivation and Production Facility	100 %
Cresco Labs PA, LLC	Pennsylvania; Registered: Illinois	Holding Company	100 %
Cresco Yeltrah, LLC	Pennsylvania	Cultivation, Production and Dispensary Facility	100 %
JDC Newark, LLC	Ohio	Holding Company	100 %
Verdant Creations Newark, LLC	Ohio	Dispensary	100 %
JDC Marion, LLC	Ohio	Holding Company	100 %
Verdant Creations Marion, LLC	Ohio	Dispensary	100 %
JDC Chillicothe, LLC	Ohio	Holding Company	100 %
Verdant Creations Chillicothe, LLC	Ohio	Dispensary	100 %
JDC Columbus, LLC	Ohio	Holding Company	100 %
Care Med Associates, LLC	Ohio	Dispensary	100 %
Cresco Labs Arizona, LLC	Arizona	Holding Company	100 %
Arizona Facilities Supply, LLC	Arizona/Maryland	Cultivation, Production and Dispensary Facility	100 %
Cresco Labs Tinad, LLC	Illinois	Holding Company	100 %
PDI Medical III, LLC (Sunnyside* [®] - Buffalo Grove and Sunnyside* [®] - Naperville)	Illinois	Dispensary	100 %
Cresco Labs Phoenix Farms, LLC	Illinois	Holding Company	100 %
Phoenix Farms of Illinois, LLC (Sunnyside* [®] - Champaign and Sunnyside* [®] - Danville)	Illinois	Dispensary	100 %
JDC Elmwood, LLC	Illinois	Holding Company	100 %
FloraMedex, LLC (Sunnyside* [®] - Elmwood Park and Sunnyside* [®] - Schaumburg)	Illinois	Dispensary	100 %
Cresco Edibles, LLC	Illinois	Holding Company	100 %
TSC Cresco, LLC	Illinois	Licensing	75 %
Cresco HHH, LLC	Massachusetts	Cultivation, Production and Dispensary Facility	100 %

Cresco Labs Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the Three and Six Months Ended June 30, 2021 and 2020**

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

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

ii. *Property and Equipment*

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

Category	Methodology	Estimated Useful Life
Leasehold Improvements	Amortized over the lesser of the life of the lease or estimated useful life of the improvement	1 - 15 years
Machinery and Equipment	Over the estimated useful life of the asset	5 - 15 years
Furniture and Fixtures	Over the estimated useful life of the asset	3 - 7 years
Vehicles	Over the estimated useful life of the asset	5 years
Website and Software	Over the estimated useful life of the asset	3 - 7 years
Computer Equipment	Over the estimated useful life of the asset	3 - 7 years
Buildings and Building Improvements	Over the estimated useful life of the asset	5 - 39 years

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

(e) **Earnings (Loss) Per Share**

Earnings (loss) per share (“EPS”) is calculated by dividing the net earnings or loss attributable to shareholders by the weighted-average shares outstanding. The Company presents basic and diluted EPS in the Unaudited Condensed Interim Consolidated Statements of Operations. Basic EPS is calculated by dividing the profit or loss attributable to shareholders by the weighted-average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the weighted-average number of shares outstanding for the effects of all dilutive potential shares, which are comprised of redeemable Cresco Labs, LLC shares, options, warrants, restricted stock units (“RSUs”) issued and deferred consideration. Shares with anti-dilutive impacts are excluded from the calculation. The number of shares included with respect to redeemable shares, options, warrants and RSUs is computed using the treasury stock method.

Cresco Labs Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2021 and 2020**

Potentially dilutive securities were excluded in the calculation of diluted EPS for these periods as their impact would have been anti-dilutive due to net losses in the periods.

Potentially dilutive shares as of June 30, 2021 and 2020, consisted of the following:

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Redeemable units	117,446	142,769	119,674	144,244
Options	24,895	451	14,030	451
Warrants	5,073	—	3,619	—
RSUs	692	—	670	—
Deferred consideration	—	16	—	16
Total potentially dilutive shares	148,106	143,236	137,993	144,711

(f) Recasts and Adjustments

Prior period amounts included throughout the unaudited condensed interim consolidated financial statements have been recast and adjusted to update for historical changes necessary to present the unaudited condensed interim consolidated financial statements in accordance with U.S. GAAP.

(g) Recently Adopted Accounting Pronouncements

The Company does not have any recently adopted accounting pronouncements during the three and six months ended June 30, 2021.

(h) Recently Issued Accounting Standards

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 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). ASU 2020-06 simplifies and adds disclosure requirements for the accounting and measurement of convertible instruments and the settlement assessment for contracts in an entity’s own equity. The amendments in this update are effective for all business entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. We do not expect the adoption of this guidance will have an impact on the Company’s unaudited condensed interim consolidated financial statements.

In May 2021, the FASB issued ASU No. 2021-04 Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40). ASU 2021-04 clarifies and reduces diversity in an issuer’s accounting for modifications or exchanges of freestanding equity-classified written call options due to a lack of explicit guidance in the FASB Codification. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. We do not expect the adoption of this guidance will have an impact on the Company’s unaudited condensed interim consolidated financial statements.

Cresco Labs Inc.
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NOTE 3. INVENTORY

As of June 30, 2021 and December 31, 2020, inventory was comprised primarily of cannabis and cannabis-related products.

Inventory consisted of the following:

<i>(\$ in thousands)</i>	June 30, 2021	December 31, 2020
Raw materials	\$ 21,618	\$ 23,203
Raw materials - non-cannabis	19,392	15,288
Work-in-process	26,983	7,530
Finished goods	34,938	21,162
Total Inventory	\$ 102,931	\$ 67,183

The Company wrote off \$0.2 million of inventory during both the three and six months ended June 30, 2021, respectively, and \$nil during both the three and six months ended June 30, 2020.

During the three and six months ended June 30, 2021, the Company recorded inventory reserve provisions of \$0.5 million. During the three and six months ended June 30, 2020, the Company recorded inventory reserve provisions of \$nil and \$1.1 million, respectively. As of June 30, 2021 and December 31, 2020, the Company had ending inventory reserves of \$2.7 million and \$2.2 million, respectively.

NOTE 4. PROPERTY AND EQUIPMENT

As of June 30, 2021 and December 31, 2020, Property and equipment consisted of the following:

<i>(\$ in thousands)</i>	Land and Buildings	Machinery and Equipment	Furniture and Fixtures	Leasehold Improvements	Website, Computer Equipment and Software	Vehicles	Construction In Progress	Total
Cost								
Balance as of January 1, 2021	\$ 96,526	\$ 23,206	\$ 17,636	\$ 88,369	\$ 5,772	\$ 1,946	\$ 19,197	\$ 252,652
Additions	524	4,277	2,388	1,967	821	1,002	43,708	54,687
Transfers	755	1,535	2,763	32,469	270	66	(37,858)	—
Disposals	—	(38)	(95)	—	(13)	(29)	—	(175)
Additions from acquisition	16,810	1,505	267	4,646	—	345	3,575	27,148
Sale of 180 Smoke	—	(92)	(256)	(811)	(10)	—	—	(1,169)
Effect of foreign exchange and other adjustments	27	(141)	(14)	(57)	—	1	30	(154)
As of June 30, 2021	\$ 114,642	\$ 30,252	\$ 22,689	\$ 126,583	\$ 6,840	\$ 3,331	\$ 28,652	\$ 332,989
Accumulated depreciation								
Balance as of January 1, 2021	\$ (2,033)	\$ (3,235)	\$ (3,199)	\$ (12,882)	\$ (2,006)	\$ (493)	\$ —	\$ (23,848)
Depreciation	(2,440)	(1,324)	(1,833)	(4,416)	(876)	(278)	—	(11,167)
Disposals	—	23	44	—	7	18	—	92
Sale of 180 Smoke	—	51	55	297	6	—	—	409
Adjustments	—	90	—	—	—	—	—	90
As of June 30, 2021	\$ (4,473)	\$ (4,395)	\$ (4,933)	\$ (17,001)	\$ (2,869)	\$ (753)	\$ —	\$ (34,424)
Net book value								
As of December 31, 2020	\$ 94,493	\$ 19,971	\$ 14,437	\$ 75,487	\$ 3,766	\$ 1,453	\$ 19,197	\$ 228,804
As of June 30, 2021	\$ 110,169	\$ 25,857	\$ 17,756	\$ 109,582	\$ 3,971	\$ 2,578	\$ 28,652	\$ 298,565

Cresco Labs Inc.

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements
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As of June 30, 2021 and December 31, 2020, costs related to construction at the Company's facilities and dispensaries were capitalized in construction in progress and not depreciated. Depreciation will commence when construction is completed and the facilities and dispensaries are available for their intended use.

Depreciation of \$6.1 million and \$4.5 million was incurred during the three months ended June 30, 2021 and 2020 respectively, of which \$1.5 million and \$1.3 million, respectively, is included in Selling, general and administrative expenses, with the remainder in Cost of goods sold and ending inventory.

Depreciation of \$11.2 million and \$8.0 million was incurred during the six months ended June 30, 2021 and 2020 respectively, of which \$3.1 million and \$2.0 million, respectively, is included in Selling, general and administrative expenses, with the remainder in Cost of goods sold and ending inventory.

As of June 30, 2021, ending inventory includes \$4.8 million of capitalized depreciation. For the three months ended June 30, 2021 and 2020, \$3.4 million and \$2.7 million, respectively, of depreciation was recorded to Cost of goods sold, which includes \$2.3 million and \$1.9 million, respectively, related to depreciation capitalized to inventory in prior quarters. For the six months ended June 30, 2021 and 2020, \$6.9 million and \$4.4 million, respectively, of depreciation was recorded to Cost of goods sold, which includes \$3.6 million and \$1.6 million, respectively, related to depreciation capitalized to inventory in prior years.

NOTE 5. LEASES

The Company is the lessee in all of its leasing arrangements and has entered into leases primarily for its corporate office, cultivation and processing facilities, and dispensaries. Depending upon the type of lease, the original lease terms generally range from less than 12 months to 20 years. Certain leases include renewal options ranging from one year to 35 years. The Company is reasonably certain to exercise renewal options ranging from less than one to 10 years on certain leases.

The Company also has long-term financing liabilities associated with sale-leaseback transactions and certain properties. See Note 11 for additional details on these transactions.

During the six months ended June 30, 2021, the Company recognized one new operating lease through the acquisition of Verdant Creations, LLC ("Verdant"), and 17 new operating and finance leases through the acquisition of Bluma Wellness, Inc. ("Bluma"). The Company derecognized three real estate operating lease arrangements in which the Company was the lessor and Verdant was the lessee. With the acquisition of Verdant, the Company added dispensaries in Cincinnati, Chillicothe, Newark and Marion, Ohio. During March 2021, the Company's right-of-use ("ROU") assets and lease liabilities were reduced due to the derecognition of 26 operating leases in connection with the sale of the 180 Smoke business ("180 Smoke"). See Note 10 for additional details on these transactions.

As of June 30, 2021, ending inventory includes \$0.1 million of capitalized depreciation. For the three months ended June 30, 2021 and 2020, \$0.1 million and \$0.2 million, respectively, of depreciation was recorded to Cost of goods sold, which includes \$0.1 million and \$0.2 million, respectively, related to depreciation capitalized to inventory in prior quarters. For the six months ended June 30, 2021 and 2020, \$0.3 million and \$0.4 million, respectively, of depreciation was recorded to Cost of goods sold, which includes \$0.2 million and \$0.4 million, respectively, of depreciation capitalized to inventory in prior years.

NOTE 6. INVESTMENTS

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

(a) Fair Value Investments

The Company has investments in five entities: 420 Capital Management, LLC ("420 Capital"), a cannabis investment company; Lighthouse Strategies, LLC ("Lighthouse"), a diversified cannabis investment company; IM Cannabis Corp. ("IMC"), a pharmaceutical manufacturer that specializes in cannabis; OLD

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PAL LLC (“Old Pal”), a cannabis operator/licensor; and Aloha Holdings of Illinois LLC (“Aloha”), an entity applying for a license to open a cannabis dispensary in Illinois.

Upon the acquisition of CannaRoyalty Corp. (“Origin House”) on January 8, 2020, the Company obtained a 1.3% ownership stake in Fleurish Cannabis Inc. (“Fleurish”) for a fair value of \$0.1 million as of the acquisition date. As of June 30, 2021, the Company estimated that the Fleurish equity shares are worth zero due to the company’s continuing declining financial health. As a result, during the six months ended June 30, 2021, the Company fully impaired the investment in Fleurish.

Upon the acquisition of Bluma on the close of business April 14, 2021, the Company obtained an 13.3% ownership stake in Aloha for a fair value of \$0.1 million and 0.8% ownership stake in Old Pal for a fair value of \$0.6 million. See Note 16 for additional details. The 420 Capital, Lighthouse, Old Pal, and Aloha investments are held at fair value and are classified as equity securities without a readily determinable value. The IMC investment is classified as a marketable security with a readily determinable fair value. The Fleurish investment was classified as an equity security held at fair value without a readily determinable value as of December 31, 2020, prior to being fully impaired as of June 30, 2021.

The following is a summary of the investments held at fair value as of June 30, 2021 and December 31, 2020:

<i>(\$ in thousands)</i>	June 30, 2021	December 31, 2020
420 Capital	\$ 68	\$ 68
Lighthouse	1,049	1,049
Fleurish	—	51
Aloha	100	—
Old Pal	593	—
IMC	7,568	—
Total Investments	\$ 9,378	\$ 1,168

The Company recorded a mark-to-market loss of \$2.6 million and a gain of \$0.2 million for the three months ended June 30, 2021 and 2020, respectively, and a mark-to-market loss of \$4.0 million and \$0.3 million for the six months ended June 30, 2021 and 2020, respectively.

(b) Equity Method Investment

As part of the Origin House acquisition on January 8, 2020, the Company acquired an investment in Trichome Financial Corp. (“Trichome”), a lending entity that focuses its investments on cannabis and cannabis-related companies. At the acquisition date, the fair value of the Trichome investment was \$4.3 million. The Company’s ownership stake in Trichome upon acquisition and as of December 31, 2020 was approximately 23.0%. During the six months ended June 30, 2021, the Company derecognized the Trichome equity method investment as a part of an ownership conversion to shares in IMC. The Company recognized a gain on conversion of \$9.3 million in Other income (expense), net as the IMC investment exceeded the \$2.1 million carrying value of Trichome on the date of conversion.

The following is a summary of the equity method investment held as of June 30, 2021 and December 31, 2020:

<i>(\$ in thousands)</i>	June 30, 2021	December 31, 2020
Trichome	\$ —	\$ 3,192
Total Equity method investment	\$ —	\$ 3,192

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The Company recorded no gain or loss on investment for the three months ended June 30, 2021 and a nominal amount for the three months ended June 30, 2020. No distributions were made by the investee to the Company related to investments for either period. For the six months ended June 30, 2021 and 2020, the Company recorded a gain of \$1.2 million and a loss of \$0.1 million, respectively.

NOTE 7. INTANGIBLE ASSETS AND GOODWILL

The following is a reconciliation of the balances of intangible assets and goodwill from the beginning balances at December 31, 2020 to the ending balances on June 30, 2021:

<i>(\$ in thousands)</i>	Customer Relation- ships	Trade Names	Permit Application Costs	Licenses	Other Intangibles (a)	Goodwill	Total
Cost							
Balance at January 1, 2021	\$ 70,529	\$ 39,700	\$ 8,752	\$ 89,347	\$ 6,390	\$ 450,569	\$ 665,287
Additions	—	—	2,179	—	3,003	—	5,182
Additions from acquisitions	8,070	—	—	135,560	—	113,641	257,271
Disposals	—	—	—	—	(476)	—	(476)
Balance at June 30, 2021	\$ 78,599	\$ 39,700	\$ 10,931	\$ 224,907	\$ 8,917	\$ 564,210	\$ 927,264
Accumulated amortization							
Balance at January 1, 2021	\$ (5,129)	\$ (3,970)	\$ (7,118)	\$ —	\$ (2,960)	\$ —	\$ (19,177)
Amortization	(2,435)	(1,985)	(2,565)	—	(1,432)	—	(8,417)
Balance at June 30, 2021	\$ (7,564)	\$ (5,955)	\$ (9,683)	\$ —	\$ (4,392)	\$ —	\$ (27,594)
Net book value							
December 31, 2020	\$ 65,400	\$ 35,730	\$ 1,634	\$ 89,347	\$ 3,430	\$ 450,569	\$ 646,110
June 30, 2021	\$ 71,035	\$ 33,745	\$ 1,248	\$ 224,907	\$ 4,525	\$ 564,210	\$ 899,670

(a) Other Intangibles includes market-related intangibles, non-compete agreements, non-solicitation agreements and related amortization.

Amortization of \$4.2 million and \$8.4 million was recorded for the three and six months ended June 30, 2021, respectively, of which \$3.6 million and \$7.2 million, respectively, is included in Selling, general and administrative expenses, with the remainder in Cost of goods sold and ending inventory.

Amortization of \$3.8 million and \$7.5 million was recorded for the three and six months ended June 30, 2020, respectively, of which \$3.2 million and \$6.0 million, respectively, is included in Selling, general and administrative expenses, with the remainder in Cost of goods sold and ending inventory. During the three and six months ended June 30, 2020, the Company recorded an impairment charge of \$1.2 million on the market-related intangible asset due to changing market conditions.

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The following table outlines the estimated annual amortization expense related to intangible assets as of June 30, 2021:

(\$ in thousands)

2021	\$	6,949
2022		11,714
2023		9,585
2024		9,445
2025		9,400
Thereafter		63,460
Total estimated amortization	\$	110,553

As of June 30, 2021, ending inventory includes \$0.8 million of capitalized amortization. For the three months ended June 30, 2021 and 2020, \$0.6 million and \$0.7 million, respectively, of amortization expense was recorded to Cost of goods sold, which includes \$0.5 million and \$0.5 million, respectively, related to amortization capitalized to inventory in prior quarters. For the six months ended June 30, 2021 and 2020, \$1.4 million and \$1.1 million, respectively, of amortization expense was recorded to Cost of goods sold, which includes \$0.9 million and \$0.6 million, respectively, related to amortization capitalized to inventory in prior years.

License intangible assets of \$135.6 million were acquired from business combinations in 2021 and are classified as indefinite-lived intangible assets as the Company cannot continue as a going concern without such licenses. See Note 10 for additional details.

During the six months ended June 30, 2021, a non-solicitation and cooperation agreement intangible asset of \$3.0 million was recognized from a settlement agreement, and is amortized over a period of twenty-four months. Refer to Note 15 for additional details.

NOTE 8. SHARE CAPITAL

(a) Authorized

The authorized share capital of the Company, which has no par value, is comprised of the following:

i. Unlimited Number of Subordinate Voting Shares

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

ii. Unlimited Number of Proportionate Voting Shares

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

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During the six months ended June 30, 2021 and 2020, 41 thousand and 74 thousand PVS, respectively, were exchanged for 8.2 million and 14.9 million SVS, respectively, at a rate of 1 PVS for 200 SVS.

iii. 500,000 Super Voting Shares

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

iv. Unlimited Number of Special Subordinate Voting Shares (“SSVS”)

Holders of SSVS will be entitled to notice of and to attend any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company will have the right to vote. At each such meeting, holders of SSVS will be entitled to a 0.00001 vote in respect of each SSVS held. As long as any SSVS remain outstanding, the Company will not, without the consent of the holders of the SSVS by separate special resolution, prejudice or interfere with any right attached to the SSVS. Holders of SSVS will be entitled to receive dividends in cash or property of the Company, if and when declared by the Board of Directors (the “Board”).

v. Redeemable Units

As part of the Transaction, unit holders of Cresco Labs, LLC exchanged their units for a new class of redeemable units in Cresco Labs, LLC. Each Redeemable unit is only exchangeable for the equivalent of one SVS in Cresco Labs Inc. (without any obligation to redeem in cash). These unit holders hold an interest only in Cresco Labs, LLC; they participate in the earnings of only Cresco Labs, LLC and not the earnings of the combined entity.

(b) Issued and Outstanding

As of June 30, 2021 and 2020, issued and outstanding shares and units consisted of the following:

<i>(In thousands)</i>	Redeemable Units	Subordinate Voting Shares (SVS)	Proportionate Voting Shares (PVS)*	Super Voting Shares (MVS)	Special Subordinate Voting Shares (SSVS)**	Shares to be Issued or Canceled
Beginning balance, January 1, 2021	126,338	194,086	29,311	500	1	145
Options and warrants exercised	—	1,806	—	—	—	157
RSUs issued	—	219	—	—	—	—
Issuance of shares related to acquisitions***	—	16,081	—	—	—	—
Cresco LLC redemption	(14,537)	14,537	—	—	—	—
PVS converted to SVS	—	8,230	(8,230)	—	—	—
Issuances related to employee taxes on certain share-based payment arrangements	—	65	—	—	—	8
Share issuances	—	11,469	—	—	—	—
Ending balance, June 30, 2021	111,801	246,493	21,081	500	1	309

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

**SSVS presented on an “as-converted” basis to SVS (1-to-0.00001)

***Issuance of shares related to acquisitions includes 15.1 million SVS issued as consideration for Bluma and 0.8 million Bluma replacement shares. See Note 10 for additional details.

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<i>(In thousands)</i>	Redeemable Units	Subordinate Voting Shares (SVS)	Proportionate Voting Shares (PVS)*	Super Voting Shares (MVS)	Special Subordinate Voting Shares (SSVS)**
Beginning balance, January 1, 2020	142,172	73,600	57,937	500	—
Options and warrants exercised	—	470	12	—	—
RSUs issued	—	1,098	—	—	—
Issuance of shares related to acquisitions	—	69,465	265	—	—
Cresco LLC redemption	(3,522)	3,522	—	—	—
PVS converted to SVS	—	14,893	(14,893)	—	—
Issuances related to employee taxes on certain share-based payment arrangements	—	763	—	—	—
Share issuances	—	99	—	—	1
Ending balance, June 30, 2020	138,650	163,910	43,321	500	1

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

**SSVS presented on an “as-converted” basis to SVS (1-to-0.00001)

(i) Share Issuances

In December 2019, the Company entered an agreement with Canaccord Genuity Corp (“Canaccord”) to sell up to C\$55.0 million SVS at an at-the-market price. During the three and six months ended June 30, 2020 the Company issued 0.1 million shares at a weighted average price of \$4.40 per share. Gross proceeds were \$0.2 million, offset by equity issuance costs. No shares were issued during the three and six months ended June 30, 2021 under this agreement. In April 2021, the Company announced a new agreement with Canaccord to sell up to \$100.0 million of SVS to replace the prior agreement which was set to expire in August 2021. This agreement replaced the December 2019 agreement and related fees of \$0.3 million were reclassified from share capital to Other expense (income), net.

During the three and six months ended June 30, 2020, the Company issued 44 thousand SVS, valued at \$0.2 million, and 1 thousand SSVS (as-converted), valued at \$3 thousand.

(ii) Issuance of Shares - Private Placement

In January 2021, the Company closed an offering of 9.9 million SVS at a price of C\$16.00 (\$12.67) per share. The Company received cash proceeds of \$120.7 million, net of \$3.4 million in commission and other fees, with a corresponding increase to share capital of \$124.1 million.

(iii) Issuance of Shares - Arrangement

In February 2021, a binding settlement was reached with a former executive of the Company for payment of 1.3 million SVS to the counterparty relating to certain equity awards previously held by the counterparty in exchange for a number of covenants, including non-solicitation, non-hire, certain provisions surrounding voting rights and limitations on future sales of Company shares. See Note 15 for additional information about the arrangement.

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(iv) Issuance of Shares - Verdant

In February 2021, in conjunction with the acquisition of four Verdant dispensaries, the Company issued 0.1 million SVS valued at \$2.0 million.

(v) Issuance of Shares – Bluma

In May 2021, in conjunction with the acquisition of Bluma, the Company issued 15.1 million SVS and 0.8 million replacement shares valued at \$183.3 million and \$11.3 million, respectively.

(vi) Issuance of Shares - Origin House

In January 2020, in conjunction with the acquisition of Origin House, the Company issued 66.5 million SVS, valued at \$396.6 million.

During the six months ended June 30, 2020, the Company issued 1.1 million SVS, valued at \$3.7 million, to satisfy certain obligations related to deferred consideration related to legacy acquisitions by Origin House.

In May 2020, the Company issued 0.3 million SVS, valued at \$1.0 million, in accordance with the post combination remuneration agreement associated with Origin House's previous acquisition of FloraCal.

In May 2020, the Company also issued 0.7 million SVS, valued at \$2.2 million, to settle the deferred consideration associated with Origin House's previous acquisition of Cub City, LLC.

(vii) Issuance of Shares - Valley Agriceuticals, LLC (“Valley Ag”)

During the six months ended June 30, 2020, the Company issued 0.3 million PVS (as-converted), valued at \$1.2 million to satisfy certain obligations related to interest on deferred consideration.

In May 2020, the Company issued 0.5 million SVS, valued at \$1.5 million to satisfy a portion of the Company's make-whole liability. See notes 10 and 16 for further details.

(viii) Issuance of Shares – MedMar Lakeview

In April 2020, the Company issued 0.1 million SVS, valued at \$0.4 million, to satisfy certain obligations related to contingent consideration.

(ix) Issuance of Shares – Tryke Companies, LLC

In April 2020, the Company issued 0.3 million SVS, valued at \$1.3 million, in accordance with the termination agreement which canceled the previously announced purchase agreement to acquire certain assets of and an interest in Tryke Companies, LLC, and certain subsidiaries and affiliates.

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(c) Stock Purchase Warrants

Each whole warrant entitles the holder to purchase one SVS or PVS of the Company. A summary of the status of the warrants outstanding as of June 30, 2021 is as follows:

<i>(In thousands)</i>	Number of warrants*	Weighted-average exercise price
Balance as of January 1, 2021	6,183	\$ 7.80
Bluma replacement warrants	4,665	11.64
Exercised	(704)	6.20
Forfeited	(70)	11.64
Balance as of June 30, 2021	10,074	\$ 9.66

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

<i>(In thousands)</i>	Number of warrants*	Weighted-average exercise price
Balance as of January 1, 2020	6,454	\$ 7.73
Exercised	(12)	4.24
Balance as of June 30, 2020	6,442	\$ 7.73

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

During the three and six months ended June 30, 2021, the Company recorded \$2.9 million and \$5.0 million, of warrant exercises into share capital, respectively. The 10.1 million outstanding warrants are from issuances to underwriters associated with the September 2019 financing and sellers from the Valley Ag acquisition. Of the total outstanding warrants, 4.2 million are classified as long-term liabilities and 5.8 million are classified as equity. See Note 16 for information about valuation of liability-classified warrants.

As part of the Bluma acquisition in the second quarter of 2021, the Company issued 4.7 million Cresco warrants valued at \$18.4 million in exchange for Bluma warrants that were issued and outstanding on the acquisition date. The issued warrants are equity-classified. During the quarter, 0.2 million warrants related to the Bluma acquisition were exercised for \$2.2 million resulting in an increase to share capital of \$2.9 million.

During the six months ended June 30, 2021, 0.5 million equity-classified warrants associated with the Valley Ag acquisition were exercised for \$0.7 million, resulting in an increase to share capital of \$2.1 million. No warrants associated with the Valley Ag acquisition were exercised in the three months ended June 30, 2021. During the six months ended June 30, 2020, 12 thousand equity-classified warrants associated with the Valley Ag acquisition were exercised for \$0.1 million, resulting in an increase to share capital of \$0.1 million.

(d) Distribution to Non-controlling Interest Holders

As of June 30, 2021 and December 31, 2020, the Company accrued for tax-related distributions to 2021 and 2020 unit holders of Cresco Labs, LLC and other minority interest holders of \$15.8 million and \$64.0 million, respectively. These distributions will reduce non-controlling interest upon payment.

In accordance with the underlying operating agreements, the Company declared and paid required distribution amounts to 2021 and 2020 unit holders of Cresco Labs, LLC and other minority interest holders of \$53.2 million and \$55.6 million, during the three and six months ended June 30, 2021,

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respectively. In accordance with the underlying operating agreements, the Company paid required tax distribution amounts to 2019 and 2020 unit holders of Cresco Labs, LLC and other minority interest holders of \$0.5 million, during the three and six months ended June 30, 2020, respectively.

(e) Changes in Ownership and Non-controlling Interests

During the three and six months ended June 30, 2021, redemptions of 7.6 million and 14.5 million redeemable units occurred, respectively, which were converted into an equivalent number of SVS. This redemption resulted in a decrease of 3.4% and 5.8%, respectively, in non-controlling interest in Cresco Labs, LLC.

During the three and six months ended June 30, 2020, redemptions of 1.5 million and 3.5 million redeemable units occurred, respectively, which were converted into an equivalent number of SVS. This redemption resulted in a decrease of 0.6% and 1.4%, respectively, in non-controlling interest in Cresco Labs, LLC.

As of and for the six months ended June 30, 2021, non-controlling interest included the following amounts before intercompany eliminations:

<i>(\$ in thousands)</i>	TSC Cresco, LLC	MedMar Inc. (Lakeview)	MedMar Inc. (Rockford)	Cresco Labs Ohio, LLC	SLO Cultivation Inc.	Other entities including Cresco Labs, LLC ¹	Eliminations	Total
Non-current assets	\$ 5,406	\$ 34,051	\$ 22,534	\$ 15,213	\$ 25,252	\$1,199,211	\$ —	\$1,301,667
Current assets	41,193	40,168	87,562	51,912	86,039	211,419	(224,549)	293,744
Non-current liabilities	—	(11,575)	(3,209)	(12,210)	(12,059)	(431,084)	—	(470,137)
Current liabilities	(31,849)	(53,487)	(60,131)	(60,076)	(131,049)	(90,850)	232,796	(194,646)
Net assets (liabilities)	\$ 14,750	\$ 9,157	\$ 46,756	\$ (5,161)	\$ (31,817)	\$ 888,696	\$ 8,247	\$ 930,628
Net assets (liabilities) attributable to NCI	\$ 2,074	\$ 2,741	\$ 3,393	\$ 31	\$ (7,197)	\$ 46,804	\$ —	\$ 47,846
								—
Revenue	\$ 9,871	\$ 22,506	\$ 40,382	\$ 10,488	\$ 11,961	\$ 312,605	\$ (19,401)	\$ 388,412
Gross profit	\$ 6,329	\$ 11,079	\$ 21,135	\$ 3,985	\$ (2,330)	\$ 156,179	\$ (8,373)	\$ 188,004
Net income (loss)	\$ 5,375	\$ 1,910	\$ 13,364	\$ (3,314)	\$ (9,520)	\$ (29,286)	\$ —	\$ (21,471)
Net income (loss) allocated to NCI	\$ 1,344	\$ 237	\$ 3,341	\$ (33)	\$ (1,904)	\$ 9,764	\$ —	\$ 12,749
NCI percentage as of June 30, 2021	25.0 % ¹	12.4 % ²	25.0 % ²	1.0 % ¹	20.0 % ¹	44.3 %		

¹ The NCI percentage reflects the NCI that exists at Cresco Labs, LLC. There is a further 44.3% NCI related to NCI for Cresco Labs Inc.

² The NCI percentage reflects the NCI that exists at Cresco U.S. Corp.

³ Includes the effect of LLC unit redemptions and other adjustments

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As of and for the twelve months ended December 31, 2020, non-controlling interest included the following amounts before intercompany eliminations:

<i>(\$ in thousands)</i>	TSC Cresco, LLC	MedMar Inc. (Lakeview)	MedMar Inc. (Rockford)	Cresco Labs Ohio, LLC	SLO Cultivation Inc.	Other entities including Cresco Labs, LLC¹	Eliminations	Total
Non-current assets	\$ 4,064	\$ 32,397	\$ 20,957	\$ 13,626	\$ 22,744	\$ 889,341	\$ —	\$ 983,129
Current assets	31,099	26,022	38,178	42,934	80,219	184,871	(153,856)	249,467
Non-current liabilities	—	(11,755)	(2,188)	(12,328)	(10,666)	(367,481)	—	(404,418)
Current liabilities	(24,852)	(32,922)	(28,248)	(46,953)	(118,870)	(164,422)	163,421	(252,846)
Net assets (liabilities)	\$ 10,311	\$ 13,742	\$ 28,699	\$ (2,721)	\$ (26,573)	\$ 542,309	\$ 9,565	\$ 575,332
Net assets (liabilities) attributable to NCI	\$ 2,521	\$ 3,308	\$ 4,334	\$ 64	\$ (5,293)	\$ 97,161 ³	\$ —	\$ 102,095
Revenue	\$ 16,874	\$ 31,320	\$ 38,417	\$ 14,646	\$ 19,772	\$ 386,257	\$ (31,035)	\$ 476,251
Gross profit	10,033	16,411	20,092	5,097	(4,461)	164,116	(4,587)	206,701
Net income (loss)	\$ 7,884	\$ 3,606	\$ 10,430	\$ (6,238)	\$ (11,219)	\$ (97,234)	\$ —	\$ (92,771)
Net income (loss) allocated to NCI	\$ 1,971	\$ 447	\$ 2,607	\$ (62)	\$ (2,244)	\$ 6,667	\$ —	\$ 9,386
NCI percentage as of December 31, 2020	25.0 % ¹	12.4 % ²	25.0 % ²	1.0 % ¹	20.0 % ¹	50.1 %		

¹ The NCI percentage reflects the NCI that exists at Cresco Labs, LLC. There is a further 50.1% NCI related to NCI for Cresco Labs Inc. as of December 31, 2020.

² The NCI percentage reflects the NCI that exists at Cresco Labs Inc.

³ Includes the effect of LLC unit redemptions and other adjustments.

NOTE 9. SHARE-BASED COMPENSATION

The Company has a share-based compensation plan (the “Plan”) for key employees and service providers. Under the Plan, options issued have no voting rights and vest proportionately over periods ranging from the grant date to four years from the issuance date. Stock options exercised are converted to SVS. The maximum number of shares issued under the Plan shall not exceed 10% of the issued and outstanding shares.

A summary of the status of the options outstanding as of June 30, 2021, consisted of the following:

	Number of stock options outstanding	Weighted- average exercise price	Weighted- average remaining contractual life (years)	Aggregate intrinsic value
Outstanding – January 1, 2021	22,506,713	\$ 3.96	8.1	\$ 133,603,900
Granted	4,381,367	12.01		
Exercised	(1,377,357)	1.58		
Forfeited	(476,354)	7.83		
Outstanding - June 30, 2021	25,034,369	5.36	8.0	152,508,721
Exercisable - June 30, 2021	12,911,820	\$ 3.40	7.4	\$ 102,562,066

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During the three months ended June 30, 2021 and 2020, options were exercised for gross proceeds of \$0.4 million and \$0.1 million, respectively. During the six months ended June 30, 2021 and 2020, options were exercised for gross proceeds of \$1.6 million and \$0.5 million, respectively.

The following table summarizes the weighted-average grant date fair value and intrinsic value of options exercised for the six months ended June 30, 2021:

<i>(\$ in thousands, except per share data)</i>	Six Months Ended June 30, 2021	
Weighted-average grant date fair value (per share) of stock option units granted	\$	7.83
Intrinsic value of stock option units exercised, using market price at exercise date	\$	13,343

Weighted-average share price on dates on which options were exercised for the three and six months ended June 30, 2021 was \$11.57 and \$11.27 per option, respectively.

The fair value of stock options granted under the Plan for the six months ended June 30, 2021, was determined using the Black-Scholes option-pricing model with the following range of assumptions at the time of the grant:

	June 30, 2021
Risk-free annual interest rate	0.4% - 1.14%
Expected annual dividend yield	—
Expected stock price volatility	67.0% to 80.4%
Expected life of stock options	5 to 7 years
Forfeiture rate	7.5% - 24.9%
Fair value at grant date	\$7.31 to \$8.78
Stock price at grant date	\$11.42 to \$13.10
Exercise price range	\$11.42 to \$13.10

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

Restricted Stock Units

The Company has an RSU program to provide employees an additional avenue to participate in the successes of the Company. The fair value of RSUs granted was determined by the fair value of the Company's share price on date of grant. A number of RSUs granted had the ability to settle in cash at the employee's election. These awards were determined to be liability-classified awards and are required to be marked-to-market as of the end of each reporting period through issuance. As of June 30, 2021 and December 31, 2020, the Company recorded \$0.2 million and \$22 thousand, respectively, in Deferred consideration, contingent consideration and other payables, short-term on the Unaudited Condensed Interim Consolidated Balance Sheets related to these awards.

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A summary of outstanding RSUs is provided below:

	Number of RSUs outstanding	Weighted- average fair value
Outstanding - January 1, 2021	994,329	\$ 6.54
Bluma replacement awards granted	206,650	12.17
Granted	535,310	11.76
Vested and settled	(265,277)	6.76
Forfeited	(84,392)	7.24
Outstanding - June 30, 2021	1,386,620	\$ 9.42
Liability-classified as of June 30, 2021	15,325	\$ 11.42

Of the liability-classified awards above, 8 thousand awards have vested and are pending settlement as of June 30, 2021. The following table summarizes the total fair value of RSUs vested and settled for the six months ended June 30, 2021:

<i>(\$ in thousands)</i>	Six Months Ended June 30, 2021	
Total fair value of RSUs vested, using market price at vest date	\$	4,529

Replacement Awards

During the three and six months ended June 30, 2021, the Company granted 0.2 million replacement RSUs with a weighted-average fair value at grant date of \$12.17 per share in connection with the Bluma acquisition. Upon closure of the acquisition, the Company accelerated the vesting of all replacement RSUs, recognizing \$2.1 million in post combination expense. As of June 30, 2021, all awards are fully vested and have not yet been issued.

Replacement Shares

During the three and six months ended June 30, 2021, the Company granted 1.0 million replacement shares to existing holders of vested and unissued Bluma RSUs. The Company recorded \$0.3 million in share based compensation expense related to the change in fair value of the shares upon conversion. As of June 30, 2021, 0.8 million replacement shares have been issued with the remaining shares pending issuance.

Subscription Award

During the three months ended June 30, 2021, the Company issued 0.1 million subscription awards as compensation to a former member of key management personnel at a weighted average fair value of \$11.25 per share. The awards are considered to be fully vested as of the grant date. The Company recognized \$0.7 million in share based compensation expense and a corresponding increase in common stock as of the grant date.

Expense Attribution

The Company recorded compensation expense for option awards in the amount of \$5.2 million and \$6.9 million for three months ended June 30, 2021 and 2020, respectively. For the three months ended June 30, 2021 and 2020, the Company expensed \$4.7 million and \$6.8 million, respectively, to Selling, general and administrative expenses, with the remainder in Cost of goods sold and ending inventory. The Company recorded compensation expense for option awards in the amount of \$10.6 million and \$8.3 million for six months ended June 30, 2021 and 2020, respectively. For the six months ended June 30, 2021 and 2020, the Company expensed \$9.1 million and \$8.0 million, respectively, to Selling, general and administrative expenses, with the remainder in Cost of goods sold and ending

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inventory. Unrecognized compensation expense as of June 30, 2021 for option awards is \$31.7 million and will be recorded over the course of the next 4 years.

The Company recorded compensation expense for RSU awards in the amount of \$1.0 million and \$0.2 million for the three months ended June 30, 2021 and 2020, respectively, of which \$0.9 million and \$0.1 million, respectively, is included in Selling, general and administrative expenses, with the remainder in Cost of goods sold and ending inventory. The Company recorded compensation expense for RSU awards in the amount of \$2.5 million and \$0.4 million for the six months ended June 30, 2021 and 2020, respectively, of which \$2.0 million and \$0.1 million, respectively, is included in Selling, general and administrative expenses, with the remainder in Cost of goods sold and ending inventory. Unrecognized compensation expense as of June 30, 2021 is \$6.1 million and will be recognized over the course of the next 3.6 years.

As of June 30, 2021 ending inventory includes \$0.7 million of capitalized compensation expense related to both options and RSUs. For the three months ended June 30, 2021 and 2020, \$0.7 million and \$0.8 million, respectively, of compensation expense was recorded to Cost of goods sold, which includes \$0.5 million and \$0.7 million, respectively, related to compensation expense capitalized to inventory in prior quarters. For the six months ended June 30, 2021 and 2020, \$1.4 million and \$1.7 million, respectively, of compensation expense was recorded to Cost of goods sold, which includes \$0.2 million and \$1.4 million, respectively, related to compensation expense related to RSUs capitalized to inventory in prior years.

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NOTE 10. ACQUISITIONS AND DISPOSITIONS

(a) Business Combinations

The table below summarizes business combinations completed during the six months ended June 30, 2021:

Completed during the six months ended June 30, 2021	Verdant (i)	Bluma (ii)	Total
<i>(\$ in thousands)</i>			
Total consideration			
Common shares issued	\$ 2,000	\$ 183,262	\$ 185,262
Cash	1,500	—	1,500
Cashless exercise option on loan	10,000	—	10,000
Settlement of leases	2,150	—	2,150
Loan settlement	11,414	21,226	32,640
Warrants issued	—	18,415	18,415
Replacement RSU awards	—	11,882	11,882
Payment of acquisition-related transaction costs on behalf of the acquiree	—	3,373	3,373
Deferred consideration	—	1,806	1,806
Total consideration	\$ 27,064	\$ 239,964	\$ 267,028
Net identifiable assets (liabilities) acquired			
Cash	\$ 1,360	\$ 1,623	\$ 2,983
Inventory	1,519	20,770	22,289
Loan Receivables, ST	—	2,538	2,538
Other current assets	77	1,206	1,283
Property & equipment	996	26,152	27,148
Right-of-use asset	127	13,709	13,836
Intercompany receivable	100	—	100
Other non-current assets	47	—	47
Customer relationships	1,370	6,700	8,070
License	18,560	117,000	135,560
Investments	—	693	693
Total identifiable assets acquired	\$ 24,156	\$ 190,391	\$ 214,547
Short-term liabilities	(1,601)	(3,558)	(5,159)
Intercompany payable	(100)	—	(100)
Lease liability	(127)	(13,685)	(13,812)
Contract Liability - Loyalty Program	—	(456)	(456)
Deferred tax liability	(4,396)	(37,237)	(41,633)
Total identifiable liabilities acquired	(6,224)	(54,936)	(61,160)
Net identifiable assets acquired	\$ 17,932	\$ 135,455	\$ 153,387
Purchase price allocation			
Net identifiable assets acquired	17,932	135,455	153,387
Goodwill	9,132	104,509	113,641
Total consideration	\$ 27,064	\$ 239,964	\$ 267,028

(i) Verdant

On February 16, 2021, the Company announced that it had completed the acquisition of 100% of the membership interests of Verdant dispensaries in Cincinnati, Chillicothe, Newark and Marion, Ohio. As a result of this acquisition, the Company now holds additional licenses to distribute medical cannabis in the state of Ohio, bringing the Company's dispensary presence in Ohio to five, the maximum allowed by the state. As of June 30, 2021, the Company recorded preliminary estimates of the fair value of assets acquired and liabilities assumed. The Company will continue to evaluate the underlying

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inputs and assumptions used for intangible assets, leases, and taxes. Balances are subject to change during the measurement period which will conclude at the earlier of the date the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date, learns that more information is not obtainable, or one year following the acquisition date.

Total consideration for the acquisition was \$27.1 million and consisted of 0.1 million SVS issued as of the acquisition date, valued at \$2.0 million, cash payments of \$1.5 million, settlement of cashless exercise option on loans receivable of \$10.0 million as stated in the unit purchase option agreement, settlement of a preexisting lease arrangement of \$2.2 million as a result of stated value exceeding fair value per third party valuation and settlement of other preexisting loan relationships of \$11.4 million.

The Company calculated, on a pro forma basis, the combined results of the acquired entity as if the Verdant acquisition had occurred as of January 1, 2021. These unaudited pro forma results are not necessarily indicative of either the actual consolidated results had the acquisition occurred as of January 1, 2021, or of the future operating results.

Total unaudited pro forma Revenue and Net loss for the combined company for the six months ended June 30, 2021, was \$391.1 million and \$22.3 million, respectively. The Company completed the acquisition of Verdant and consolidated the full results of operations for the three months ended June 30, 2021.

Contributed Revenue and Net income from the Verdant acquisition was \$2.8 million and \$0.3 million, respectively, for the three months ended June 30, 2021. Contributed Revenue and Net income from the Verdant acquisition was \$8.8 million and \$1.8 million, respectively, for the six months ended June 30, 2021.

(ii) Bluma

On April 14, 2021, the Company announced that it had completed the acquisition of 100% of the membership interests of Bluma, a vertically integrated operator in Florida. As a result of this acquisition, the Company now holds a license to cultivate, process, transport, and dispense medical cannabis in the state of Florida, bringing the Company's dispensary presence in Florida to eight. As of June 30, 2021, the Company recorded preliminary estimates of the fair value of assets acquired and liabilities assumed. The Company will continue to evaluate the underlying inputs and assumptions used for intangible assets, fixed assets, and taxes. Balances are subject to change during the measurement period which will conclude at the earlier of the date the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date, learns that more information is not obtainable, or one year following the acquisition date.

Total consideration for the acquisition was \$240.0 million and consisted of 15.1 million SVS issued as of the acquisition date, valued at \$183.3 million, cash payments of \$3.4 million to pay for the sellers' transaction fees, 4.7 million equity-classified warrants issued valued at \$18.4 million, 0.8 million replacement shares valued at \$11.9 million, deferred consideration of \$1.8 million and settlement of preexisting loan relationships of \$21.2 million. The Company recorded \$2.5 million of post-acquisition share-based compensation expense related to warrants issued, replacement shares and replacement RSU awards.

The Company calculated, on a pro forma basis, the combined results of the acquired entity as if the Bluma acquisition had occurred as of January 1, 2021. These unaudited pro forma results are not necessarily indicative of either the actual consolidated results had the acquisition occurred as of January 1, 2021, or of the future operating results.

Total unaudited pro forma Revenue and Net loss for the combined company for the six months ended June 30, 2021, was \$396.3 million and \$35.3 million, respectively.

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Contributed Revenue and Net loss from the Bluma acquisition was \$7.6 million and \$4.9 million, respectively, for the six months ended June 30, 2021.

Since the first quarter of 2021, the Company recorded transaction costs of \$1.5 million in connection with the Bluma acquisition as Selling, general, and administrative expenses in the Unaudited Condensed Interim Consolidated Statements of Operations for the six months ended June 30, 2021.

(b) Deferred Consideration, Contingent Consideration and Other Payables

The following is a summary of deferred consideration, contingent consideration, and other payables balances as of June 30, 2021 and December 31, 2020, which are classified as short-term:

<i>(\$ in thousands)</i>	June 30, 2021	December 31, 2021
Valley Ag contingent consideration	\$ 27,242	\$ 19,093
Liability-classified equity awards	152	22
Bluma deferred consideration payable	903	—
Total Deferred consideration, contingent consideration and other payables, short-term	\$ 28,297	\$ 19,115

During the three and six months ended June 30, 2021, the Company recognized a mark-to-market gain of \$2.9 million and a mark-to-market loss of \$8.1 million, respectively, related to contingent consideration for its Valley Ag acquisition. As of June 30, 2021, the estimated liability of \$27.2 million is based on the present value of potential payouts associated with market conditions and changes in the Company's stock price. As of June 30, 2021 the likelihood of the contingencies being met was estimated at 50%.

During the six months ended June 30, 2021, the Company reclassified \$0.4 million from equity-classified awards to liability-classified equity awards as the Company elected to allow the option for cash settlement on certain RSUs upon vest. During the three months ended June 30, 2021, there were no reclassifications from equity-classified awards. During the three and six months ended June 30, 2021, the company recorded an unrecognized gain on the reclassified awards of \$0.1 million and a nominal loss, respectively, due to changes in the Company's stock price. The Company settled \$0.3 million of liability-classified awards in cash during the six months ended June 30, 2021, resulting in an ending balance of \$0.2 million as of June 30, 2021.

In connection with the Bluma acquisition, the Company recorded a deferred consideration liability valued at \$1.8 million associated with acquisition-related transaction costs paid by the Company on behalf of the sellers. In May 2021, the Company settled \$0.9 million of the obligation in cash. The remaining balance of \$0.9 million is expected to be paid in the third quarter of 2021.

(c) Long-term Deferred and Contingent Consideration

The following is a summary of long-term contingent consideration as of June 30, 2021 and December 31, 2020:

<i>(\$ in thousands)</i>	June 30, 2021	December 31, 2021
Valley Ag operating cash flows consideration	\$ 7,943	\$ 7,247
Total Long-term deferred and contingent consideration	\$ 7,943	\$ 7,247

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During the three and six months ended June 30, 2021, the Company recorded a \$0.3 million and \$0.7 million increase, respectively, to the present value of Valley Ag operating cash flows consideration due to changes in the Company's incremental borrowing rate and other present value considerations. As of June 30, 2021, the estimated liability of \$7.9 million is based on the present value of expected payments associated with future cash flows of the acquired business.

(d) Dispositions

On March 30, 2021, the Company completed the divestiture of the 180 Smoke and related intercompany receivables to Spyder Cannabis Inc. and Plant-Based Investment Corp. for approximately \$1.1 million, after certain adjustments. The sale resulted in a loss of \$0.8 million for the six months ended June 30, 2021, and is classified as a component of Other (expense) income, net. At the time of sale, the Company recognized an additional loss of \$0.3 million for accumulated foreign currency translation loss previously included in Other comprehensive loss, which is included within Other (expense) income, net.

NOTE 11. LONG-TERM NOTES AND LOANS PAYABLE

The following table represents the Company's Long-term notes and loans payable balances as of June 30, 2021 and December 31, 2020:

<i>(\$ in thousands)</i>	June 30, 2021	December 31, 2020
Amended Term Loan	\$ 189,423	\$ 186,442
Interest payable	6,021	3,657
Financing liabilities-leases	96,881	91,264
Total borrowings and interest payable	<u>\$ 292,325</u>	<u>\$ 281,363</u>
Less: Short-term borrowings and interest payable	(17,716)	(15,071)
Less: Current portion of financing liabilities-leases	(10,339)	(10,853)
Total Long-term notes and loans payable	<u>\$ 264,270</u>	<u>\$ 255,439</u>

(a) Amended Term Loan

On February 2, 2020, the Company closed on a senior secured term loan agreement (the "Term Loan") for an aggregate principal amount of \$100.0 million, with the option to increase the principal amount to \$200.0 million. Of the \$100.0 million Term Loan commitment, \$92.4 million was committed by Tranche A lenders (the "Tranche A Commitment") and \$7.6 million was committed by Tranche B lenders (the "Tranche B Commitment").

The Tranche A Commitment accrued interest at a rate of 12.7% per annum, payable in cash quarterly, and had a stated maturity of July 2021. The Tranche B Commitment accrued interest at a rate of 13.2% per annum, payable in cash quarterly, and had a stated maturity of January 2022. The Company's effective interest rates for the Tranche A Commitment and Tranche B Commitment of the Term Loan were 17.0% and 16.1%, respectively. The Company capitalized \$5.5 million and \$0.4 million, respectively, of borrowing costs related to the Tranche A Commitment and Tranche B Commitment.

On December 11, 2020, the Company entered into an amendment to exercise the mutual option to increase the principal amount to \$200.0 million and refinance the existing Term Loan and the Opaskwayak Cree Nation Loan (the "OCN Loan"), resulting in one amended term loan (the "Amended Term Loan"). As a result of the non-substantial debt modification of the existing Term Loan and the OCN Loan, \$0.2 million in financing fees were expensed and \$0.8 million of deferred financing fees were written off. Of the \$200 million Amended Term Loan commitment, \$11.7 million was committed by non-extending lenders (the "Non-Extending Lenders Commitment"), \$97.3 million was committed by extending lenders (the "Extending Lenders Commitment") and \$91.0 million was committed by increasing lenders (the

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“Increasing Lenders Commitment”). The Company accelerated principal repayments of \$5.4 million and \$1.0 million to the OCN Loan lender and certain exiting Term Loan lenders, respectively.

The Non-Extending Lenders Commitment accrues interest at a rate of 12.7% per annum, payable in cash quarterly, and has a stated maturity of July 2021. The Extending Lenders Commitment and Increasing Lenders Commitment (the “Extending and Increasing Lenders Commitment”) accrues interest at a rate of 12.0% per annum, payable in cash quarterly, and have a stated maturity of January 2023. The Company’s effective interest rates for the Non-Extending Lenders Commitment and the Extending and Increasing Lenders Commitment are 17.7% and 15.8%, respectively. The Company capitalized \$0.1 million and \$11.1 million of borrowing costs related to the Non-Extending Lenders Commitment and the Extending and Increasing Lenders Commitment, respectively. Of the \$11.2 million in deferred financing fees, \$8.6 million is payable upon principal repayment of the Extending and Increasing Lenders Commitment and thus, was reflected within Other long-term liabilities.

The Amended Term Loan is secured by a guarantee from substantially all material subsidiaries of the Company, as well as by a security interest in certain assets of the Company and such material subsidiaries. The Amended Term Loan also contains negative covenants which restrict the actions of the Company and its subsidiaries during the term of the loan, including restrictions on paying dividends, making investments and incurring additional indebtedness. In addition, the Company is required to maintain a minimum cash balance of \$20.0 million and to ensure that the Fixed Charge Coverage Ratio is not less than 2 to 1. As of June 30, 2021, the Company is in compliance with all covenants.

The Company may prepay in whole or in part the Amended Term Loan at any time prior to the stated maturity date, subject to certain conditions, upon the payment of the outstanding principal amount (plus a specified prepayment premium) and all accrued and unpaid interest and fees. See Note 19 for additional information on interest expense.

(b) Financing Liabilities

The Company recognized financing liabilities in relation to sale-leaseback transactions for which the incremental borrowing rates range from 11.2% to 17.5% with remaining terms between 8.6 and 19.0 years, consistent with the underlying lease liabilities. The interest expense associated with financing liabilities is disclosed in Note 19.

NOTE 12. REVENUE AND LOYALTY PROGRAMS**(a) Revenue**

The following table represents the Company’s disaggregated revenue by source, due to the Company’s contracts with its customers, for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
<i>(\$ in thousands)</i>				
Wholesale	\$ 108,722	\$ 54,944	\$ 204,356	\$ 93,080
Dispensary	101,253	39,312	184,056	67,556
Total Revenue	\$ 209,975	\$ 94,256	\$ 388,412	\$ 160,636

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

(b) Loyalty Programs

The Company has customer loyalty programs where retail customers accumulate points based on their level of spending. These points are recorded as a contract liability until customers redeem their points for discounts on cannabis products as part of an in-store sales transaction. In addition, the Company records a performance obligation as a reduction of revenue that ranges between \$0.01 and \$0.04 per loyalty point based on the estimated probability of point obligation incurred, which is calculated based on a standalone selling price adjusted for estimated breakage. Upon redemption, the loyalty program obligation is relieved, and the offset is recorded as revenue. As of June 30, 2021, there were 85.6 million points outstanding, with an approximate value of \$1.3 million. The Company expects the outstanding loyalty points will be redeemed within one year.

NOTE 13. OTHER (EXPENSE) INCOME, NET

For the three and six months ended June 30, 2021 and 2020, Other (expense) income, net consisted of the following:

<i>(\$ in thousands)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Unrealized gain (loss) on derivative liabilities - warrants	\$ 10,366	\$ (1,961)	\$ 2,717	\$ 3,117
Gain on derivative instruments	2,880	2,010	1,099	7,288
Gain (loss) on provision - loan receivable	(27)	(113)	246	(113)
Unrealized gain (loss) on investments held at fair value	(2,635)	217	(3,940)	(231)
Loss on foreign currency	(390)	(238)	(1,025)	(86)
Other loss-investments	—	(25)	—	(119)
Other income	2,531	183	1,290	672
Total Other (expense) income, net	\$ 12,725	\$ 73	\$ 387	\$ 10,528

NOTE 14. RELATED PARTY TRANSACTIONS**(a) Transactions with Key Management Personnel**

The Company's key management personnel, consisting of the executive management team and management directors, have the authority and responsibility for planning, directing, and controlling the activities of the Company. The material transactions with related parties and changes in related party balances for the three and six months ended June 30, 2021 and 2020, are discussed below.

As of June 30, 2021 and December 31, 2020, the Company had income tax related receivables of \$nil and \$0.2 million, respectively, with key management personnel.

Related parties including key management personnel hold 94.8 million redeemable units of Cresco Labs, LLC, which is equal to \$28.7 million of Non-controlling interests as of June 30, 2021. During the three and six months ended June 30, 2021, 76.9% and 77.1%, respectively, of required tax distribution payments to holders of Cresco Labs, LLC were made to related parties including key management personnel. During the three and six months ended June 30, 2020, 83.2% and 83.2%, respectively, of required tax distribution payments to holders of Cresco Labs, LLC were made to related parties including key management personnel.

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During the three months ended June 30, 2021, 0.1 million MVS were transferred from a former member of key management personnel to Charlie Bachtell, Chief Executive Officer and member of the Board.

(b) Related Parties – Debt

As of June 30, 2021, the Company had borrowings with related parties of \$16.6 million related to the Company's Amended Term Loan. During the three months ended June 30, 2021 and 2020, the Company recorded interest expense related to borrowings with related parties of \$0.5 million and \$0.5 million, respectively. During the six months ended June 30, 2021 and 2020, the Company recorded interest expense related to borrowings with related parties of \$1.0 million and \$0.8 million, respectively. As of June 30, 2021 and December 31, 2020, the Company had interest payable related to borrowings with related parties of \$0.5 million and \$0.1 million, respectively. See Notes 11 and 19 for additional details.

Related party lenders include Charlie Bachtell, Chief Executive Officer and member of the Board; Robert Sampson, member of the Board; Global Green Debt, LLC which is owned by Randy Podolsky, member of the Board; Calti, LLC which is owned by Joe Caltabiano, owner of 11.2% of the Company's outstanding redeemable shares; McCormack Capital which is owned by Brian McCormack, MVS shareholder; CL Debt which is owned by Dominic Sergi, MVS shareholder; a holder of minority interest in MedMar, Inc.; and Vero Management LLC which is owned by individuals owning 22.0% of the Company's outstanding redeemable shares.

(c) Related Parties - Leases

The Company has lease liabilities for real estate lease agreements in which the lessors have minority interest in SLO Cultivation, Inc. ("SLO") and MedMar, Inc. The lease liabilities were incurred in January 2019 and May 2020 and will expire in 2027 through 2036.

The Company has lease liabilities for real estate lease agreements in which the lessor is Clear Heights Properties where Dominic Sergi is Chief Executive Officer. The lease liabilities were incurred by entering into operating leases, sale-leaseback transactions and financing transactions during 2020 and 2021 with lease terms that will expire in 2030. During the three months ended June 30, 2021 and 2020, the Company received tenant improvement allowance reimbursements of \$nil and \$0.8 million, respectively, related to these lease agreements. During the six months ended June 30, 2021 and 2020, the Company received tenant improvement allowance reimbursements of \$nil and \$0.8 million, respectively and expects to receive further reimbursements of \$2.2 million and \$2.2 million as of June 30, 2021 and December 31, 2020.

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Below is a summary of the expense resulting from the related party lease liabilities for the three and six months ended June 30, 2021 and 2020 as well as the year ended December 31, 2020:

(\$ in thousands)	Classification	Three Months Ended June		Six Months Ended June 30,	
		2021	2020	2021	2020
Operating Leases					
Lessor has minority interest in SLO	Rent expense	\$ 391	\$ 604	\$ 791	\$ 1,211
Lessor has minority interest in MedMar	Rent expense	57	—	113	—
Lessor is a member of key management personnel	Rent expense	296	—	574	—
Finance Leases					
Lessor has minority interest in MedMar	Depreciation expense	\$ 70	\$ 38	\$ 136	\$ 75
Lessor has minority interest in MedMar	Interest expense	80	44	151	88
Lessor is a member of key management personnel	Depreciation expense	18	17	36	28
Lessor is a member of key management personnel	Interest expense	21	22	42	37

Additionally, below is a summary of the ROU assets and lease liabilities attributable to related party lease liabilities as of June 30, 2021 and December 31, 2020:

(\$ in thousands)	As of June 30, 2021		As of December 31, 2020	
	ROU Asset	Liability	ROU Asset	Liability
Operating Leases				
Lessor has minority interest in SLO	\$ 5,635	\$ 9,932	\$ 4,926	\$ 8,560
Lessor has minority interest in MedMar, Inc.	1,202	1,217	1,146	1,187
Lessor is a member of key management personnel	6,535	5,042	6,334	4,783
Finance Leases				
Lessor has minority interest in MedMar, Inc.	\$ 2,277	\$ 2,545	\$ 1,201	\$ 1,365
Lessor is a member of key management personnel	635	649	648	678

During both the three and six months ended June 30, 2021, the Company recorded interest expense on finance lease liabilities of \$0.1 million and \$0.1 million respectively. During the three and six months June 30, 2020 the Company recorded interest expense on finance liabilities of \$0.1 million and \$0.1 million respectively. As of June 30, 2021, and December 31, 2020, the Company had finance lease liabilities totaling \$1.5 million and \$1.5 million, respectively. All finance lease liabilities outstanding are held by a related party owning MVS shares of the Company.

NOTE 15. COMMITMENTS AND CONTINGENCIES**(a) Claims and Litigation**

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of June 30, 2021, there were no pending or threatened lawsuits, except as disclosed below, that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers, or affiliates are an adverse party or has a material interest adverse to the Company's interest.

During the year ended December 31, 2020, a former executive of the Company commenced proceedings against the Company. On January 29, 2021, the Company commenced an action in the Supreme Court of

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British Columbia against various parties, including this former executive and a special purpose acquisition entity. On February 1, 2021, a binding settlement was reached and the terms were memorialized in an agreement as of March 1, 2021. The agreed-upon terms included a payment of 1.3 million SVS to the counterparty relating to certain equity awards previously held by the counterparty in exchange for a number of covenants including non-solicitation, non-hire, certain provisions surrounding voting rights and limitations on future sales of Company shares. As contemplated by the settlement, the Company discontinued the action on February 4, 2021 and a mutual release of claims resulted. At December 31, 2020, the Company recorded an estimated liability, based on certain assumptions impacting the value of the settlement and benefits to the Company, of \$13.6 million for this settlement within Accounts payable and other accrued expenses, in accordance with ASC 450 *Contingencies*.

The payment of 1.3 million SVS was made during the first quarter of 2021. The settlement and payment resulted in an increase to share capital of \$15.8 million, a non-solicitation and cooperation agreement intangible asset of \$3.0 million to be amortized over two years, and litigation accrual adjustment of \$0.8 million in selling, general and administrative expense to adjust the settlement expense from \$13.6 million to \$12.8 million. The fair value of the non-solicitation and cooperation agreement intangible asset was estimated using the with-or-without method. The with-and-without method estimates the value of an intangible asset by quantifying the loss of economic profits under a hypothetical condition where only the subject intangible does not exist and needs to be re-created. Projected revenues, operating expenses and cash flows are calculated in each “with” and “without” scenario and the difference in the cash flow is discounted to present value.

(b) 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, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management believes that the Company is in substantial compliance with applicable local and state regulations as of June 30, 2021, cannabis 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.

(c) Commitments

As of June 30, 2021 the Company had total commitments related to construction projects of \$10.0 million.

The Company has employment agreements with key management personnel which include severance in the event of termination totaling approximately \$4.6 million with additional equity and/or benefit compensation.

NOTE 16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

The Company’s financial instruments are held at amortized cost (adjusted for impairments or expected credit losses (“ECL”), as applicable) or fair value. The carrying values of financial instruments held at amortized cost approximate their fair values as of June 30, 2021 and 2020 due to their nature and relatively short maturity date. Financial assets and liabilities with embedded derivative features are carried at fair value.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

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There have been no transfers between fair value levels valuing these assets during the year.

The following tables summarize the Company's financial instruments as of June 30, 2021 and December 31, 2020:

<i>(\$ in thousands)</i>	June 30, 2021				
	Amortized Cost	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	\$ 131,040	\$ —	\$ —	\$ —	\$ 131,040
Restricted cash ¹	4,193	—	—	—	4,193
Accounts receivable, net	40,448	—	—	—	40,448
Loans receivable, short-term	3,145	—	—	1,460	4,605
Loans receivable, long-term	2,206	—	—	—	2,206
Investments	—	7,569	1,049	760	9,378
Security deposits	3,871	—	—	—	3,871
Financial Liabilities:					
Accounts payable	\$ 21,985	\$ —	\$ —	\$ —	\$ 21,985
Accrued liabilities	79,267	—	—	—	79,267
Short-term borrowings	28,056	—	—	—	28,056
Current portion of lease liabilities	18,118	—	—	—	18,118
Deferred consideration, contingent consideration and other payables, short-term	903	152	—	27,242	28,297
Derivative liabilities, long-term	—	—	—	15,319	15,319
Lease liabilities	102,943	—	—	—	102,943
Deferred consideration and contingent consideration, long-term	—	—	—	7,943	7,943
Long-term notes payable and loans payable	264,270	—	—	—	264,270

¹Restricted cash balances include various escrow accounts related to investments, acquisitions, facility requirements and building improvements.

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	December 31, 2020				
	Amortized Cost	Level 1	Level 2	Level 3	Total
<i>(\$ in thousands)</i>					
Financial Assets:					
Cash and cash equivalents	\$ 136,339	\$ —	\$ —	\$ —	\$ 136,339
Restricted cash ¹	4,435	—	—	—	4,435
Accounts receivable, net	29,943	—	—	—	29,943
Loans receivable, short-term	921	—	—	1,517	2,438
Loans receivable, long-term	1,204	—	—	20,019	21,223
Investments ²	3,192	—	1,049	119	4,360
Security deposits	3,558	—	—	—	3,558
Financial Liabilities:					
Accounts payable	\$ 23,231	\$ —	\$ —	\$ —	\$ 23,231
Accrued liabilities	130,469	—	—	—	130,469
Short-term borrowings	25,924	—	—	—	25,924
Current portion of lease liabilities	18,040	—	—	—	18,040
Deferred consideration, contingent consideration and other payables, short-term	—	22	—	19,093	19,115
Derivative liabilities, long-term	—	—	—	17,505	17,505
Lease liabilities	74,468	—	—	—	74,468
Deferred consideration and contingent consideration, long-term	—	—	—	7,247	7,247
Long-term notes payable and loans payable	255,439	—	—	—	255,439

¹Restricted cash balances include various escrow accounts related to investments, acquisitions and facility licensing requirements.

²Investment balances in the amortized cost column represent equity method investments.

The December 31, 2020, Level 3 asset balance of \$21.7 million, decreased by \$19.5 million to a June 30, 2021 balance of \$2.2 million due to the effective settlement of \$20.0 million of Loans receivable, long-term on February 16, 2021 as part of the Verdant acquisition, partially offset by increases to investments in Old Pal and Aloha of \$0.6 million and \$0.1 million, respectively, obtained upon the acquisition of Bluma.

The June 30, 2021 Level 3 liability balance of \$50.5 million, increased by \$6.7 million compared to the December 31, 2020 balance of \$43.8 million primarily due to an \$8.1 million increase in the Valley Ag contingent consideration, changes in the Company's stock price, and a \$0.7 million increase in the Valley Ag operating cash flows. Additionally, the increase was driven by a reduction in time quarter over quarter until expected payment; a partial decrease in the share purchase warrants liabilities; a decrease in the Company's volatility and remaining expected life; offset by a minimal increase in the Company's share price.

The Company had two transfers into the Level 3 assets bucket in the current period due to the addition of the Old Pal and Aloha investments acquired as part of the acquisition of Bluma. The fair values of these holdings are \$0.6 million and \$0.1 million, respectively. The Company had no transfers in or out of Level 3 during the year ended December 31, 2020.

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The tables below summarize the Level 3 activity for the three and six months ended June 30, 2021 and 2020:

(\$ in thousands)	Three Months Ended June 30, 2021		Three Months Ended June 30, 2020	
	Asset	Liability	Asset	Liability
Fair value as of March 31	\$ 1,908	\$ 63,155	\$ 18,391	\$ 29,132
Changes in estimated fair value	19	(12,871)	840	452
Payments / Cash Extended	(400)	—	657	(2,700)
Acquisition Related	693	—	—	—
Foreign exchange	—	220	—	189
Fair value as of June 30	\$ 2,220	\$ 50,504	\$ 19,888	\$ 27,073

(\$ in thousands)	Six Months Ended June 30, 2021		Six Months Ended June 30, 2020	
	Asset	Liability	Asset	Liability
Fair value as of January 1	\$ 21,655	\$ 43,845	\$ 18,310	\$ 40,198
Changes in estimated fair value	292	6,134	292	(10,370)
Payments / Cash Extended	(444)	(9)	1,286	(2,700)
Acquisition Related	(19,283)	—	—	—
Foreign exchange	—	534	—	(55)
Fair value as of June 30	\$ 2,220	\$ 50,504	\$ 19,888	\$ 27,073

(a) Loans receivable, short-term

The following is a summary of Loans receivable, short-term balances and valuation classifications (discussed further below) as of June 30, 2021 and December 31, 2020:

(\$ in thousands)	Valuation classification	June 30, 2021	December 31, 2020
Short-term loans receivable - Lighthouse	Fair value	\$ 1,460	\$ 1,517
Short-term loans receivable - Michigan	Amortized cost	1,848	—
Short-term loans receivable - Northern Emerald	Amortized cost	710	—
Interest receivable	Amortized cost	587	921
Total Loans receivable, short-term		\$ 4,605	\$ 2,438

(i) Lighthouse Loan

On August 12, 2019, the Company issued a secured convertible promissory note that is convertible, at the Company's discretion, into additional membership units approximating 1% ownership of the parent company of Lighthouse. At inception, the loan had a maturity of 18 months. The loan was amended in March 2021 to extend the maturity date from February 2021 to February 2022. The loan had a fair value, net of ECL, of \$1.5 million as of June 30, 2021 and December 31, 2020. See Note 6 for discussion of the Company's investment in Lighthouse.

(ii) Other Loans

The Company acquired two additional short-term loans receivable in the Bluma acquisition, these loans are due within 12 months. The receivables are referred to as the "Michigan" and "Northern Emerald" loans which had fair values, net of ECL, at acquisition of \$1.8 million and \$0.7 million,

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respectively, and fair values, net of ECL, of \$1.8 million and \$0.7 million, respectively, as of June 30, 2021.

(b) Loans receivable, long-term

The following is a summary of Loans receivable, long-term balances and valuation classifications (discussed further below) as of June 30, 2021 and December 31, 2020:

<i>(\$ in thousands)</i>	Valuation classification	June 30, 2021	December 31, 2020
Long-term loans receivable - Verdant	Fair value	\$ —	\$ 20,019
Long-term loans receivable - Bluma	Amortized Cost	—	—
Long-term loans receivable - Cultivate	Amortized Cost	1,775	—
Long-term loans receivable - Other	Amortized cost	385	367
Interest receivable	Amortized cost	46	837
Total Loans receivable, long-term		\$ 2,206	\$ 21,223

(i) Verdant Loan

On February 16, 2021, the Company acquired four dispensaries from Verdant. As part of the acquisition, the long-term loans receivable and related interest receivable due from Verdant were effectively settled and classified as consideration paid as part of the acquisition. See Note 10 for additional details.

(ii) Bluma Loan

On April 14, 2021 the Company acquired dispensary and cultivation operations from Bluma. As part of the acquisition, the long-term loans receivable and related interest receivable due from Bluma of \$21.1 million and \$0.1 million, respectively, were effectively settled and classified as consideration paid as part of the acquisition. See Note 10 for additional details.

(iii) Cultivate Loan

In connection with the pending acquisition of Cultivate Licensing, LLC (“Cultivate”) the Company issued two loans receivable to Cultivate for principal amounts of \$0.3 million and \$1.5 million, both fully funded on March 30, 2021. Both loans are measured at amortized cost as neither contains embedded derivatives. Both loans accrue interest at a rate of 10% per annum; as of June 30, 2021 the interest accrued on the loans total \$46 thousand.

(iv) Other Loans

In connection with the acquisition of Origin House, the Company assumed a loan receivable with a fair value of \$0.4 million and \$0.3 million as of June 30, 2021 and the acquisition date, respectively.

(c) Share Purchase Warrants

At June 30, 2021, the Company had 10.6 million warrants outstanding with 4.2 million warrants classified as Derivative liabilities, long-term, from issuances to underwriters associated with September 2019 financing.

During the three months ended June 30, 2021, no September 2019 financing warrants were exercised. During the six months ended June 30, 2021, 1 thousand September 2019 financing warrants were exercised

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for \$10 thousand, resulting in a realized loss of \$5 thousand and an increase to share capital of \$19 thousand. As of June 30, 2021, 4.2 million September 2019 financing warrants remain outstanding.

During the three months ended June 30, 2021, the Company recorded a mark-to-market gain of \$10.4 million, primarily due to a decrease in the Company's share price, a decrease in remaining expected life, and partially offset by an unrealized foreign exchange loss of \$0.2 million. For the three months ended June 30, 2020, the Company recorded a mark-to-market loss of \$2.0 million primarily due to changes in the Company's share price and other market factors and an unrealized foreign exchange loss of \$0.2 million.

During the six months ended June 30, 2021, the Company recorded a mark-to-market gain of \$2.7 million, primarily due to a decrease in the Company's volatility and remaining expected life but partially offset by an increase in the Company's share price, and an unrealized foreign exchange loss of \$0.5 million. For the six months ended June 30, 2020, the Company recorded a mark-to-market gain of \$3.1 million primarily due to changes in share price and an unrealized foreign exchange gain of \$0.1 million.

All warrants classified as derivative liabilities are measured at fair value.

As of June 30, 2021 and December 31, 2020, the fair value of liability-classified warrants was determined using the Black-Scholes option-pricing model utilizing the following assumptions:

	June 30, 2021	December 31, 2020
Risk-free annual interest rate	0.12%	0.13%
Expected annual dividend yield	0%	0%
Expected stock price volatility	60% - 71%	83%
Expected life of stock warrants	1.25 - 1.33 years	1.75 - 1.83 years
Forfeiture rate	0%	0%
Share price at period end	\$11.42	\$9.86
Strike price at period end	\$10.09	\$9.82

In the current quarter, volatility was estimated by using the Company's historical share price volatility. An increase in volatility would result in an increase in fair value at grant date. The expected life in years represents the period of time before warrants expire. The risk-free rate is based on U.S. treasury bills with a remaining term equal to the expected life of the warrants. The Company does not expect grantees to forfeit warrants.

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Financial Risk Management

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

(a) Credit and Banking Risk

Credit risk is the risk of a potential loss to the Company if a customer or a third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at June 30, 2021 and December 31, 2020 is the carrying amount of cash, accounts receivable, and loans receivable. The Company does not have significant credit risk with respect to its customers or loan counterparties, based on cannabis industry growth in its key markets and the low interest rate environment. Although all deposited cash is placed with U.S. financial institutions in good standing with regulatory authorities, changes in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry have passed the House of Representatives but have not yet been voted on within the Senate. Given that current U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept deposit funds from businesses involved with the cannabis industry.

The novel coronavirus (“COVID-19”) was declared a pandemic by the World Health Organization on March 12, 2020. During the fourth quarter of 2020, the first vaccine utilized to prevent coronavirus infection was approved by the U.S. Food and Drug Administration. As of June 30, 2021 the vaccine is becoming more widely available, however, there remains significant economic uncertainty and consequently it is difficult to reliably measure the potential impact of this uncertainty on the Company’s future financial results.

The Company’s aging of Accounts receivables as of June 30, 2021 and December 31, 2020 was as follows:

<i>(\$ in thousands)</i>	June 30, 2021	December 31, 2020
0 to 60 days	\$ 36,729	\$ 28,280
61 to 120 days	3,357	1,134
120 days +	1,293	1,225
Total accounts receivable, gross	\$ 41,379	\$ 30,639
Allowance for doubtful accounts	930	696
Total accounts receivable, net	\$ 40,449	\$ 29,943

During the six months ended June 30, 2021 and 2020, the Company recorded bad debt expense of \$0.2 million and \$0.4 million, respectively, to account for ECL and recorded an additional \$0.3 million and \$nil, respectively, in bad debt related to invoice write-offs. As of June 30, 2021 and December 31, 2020, the Company’s allowance for doubtful accounts was \$0.9 million and \$0.7 million, respectively.

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

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company primarily manages liquidity risk through the management of its capital structure by ensuring that it will have sufficient liquidity to settle obligations and liabilities when due. As of June 30, 2021, the Company had working capital (defined as current assets less current liabilities) of \$99.1 million, which reflects the equity raise as discussed in Note 8.

In January 2021, the Company completed the placement of 9.9 million SVS at a price of C\$16.00 per share for total gross proceeds of approximately \$120.7 million. In December 2020, the Company amended the existing term loan facility, increasing the total principal outstanding to \$200.0 million. See Note 8 and Note 11 for further information. The Company will continue to raise capital as needed to fund operations and expansion.

In addition to the commitments outlined in Note 15, the Company has the following contractual obligations as of June 30, 2021:

<i>(\$ in thousands)</i>	< 1 Year	1 to 3 Years	3 to 5 Years	Total
Accounts payable and accrued liabilities	\$ 101,252	\$ —	\$ —	\$ 101,252
Deferred consideration, contingent consideration and other payables, short-term	28,297	—	—	28,297
Deferred consideration and contingent consideration, long-term	—	7,943	—	7,943
Long-term notes payable and loans payable and short-term borrowings	28,056	264,270	—	292,326
Total obligations as of June 30, 2021	\$ 157,605	\$ 272,213	\$ —	\$ 429,818

In addition to the commitments outlined in Note 15, the Company had the following contractual obligations as of December 31, 2020:

<i>(\$ in thousands)</i>	< 1 Year	1 to 3 Years	3 to 5 Years	Total
Accounts payable and accrued liabilities	\$ 153,700	\$ —	\$ —	\$ 153,700
Deferred consideration, contingent consideration and other payables, short-term	19,115	—	—	19,115
Deferred consideration and contingent consideration, long-term	—	7,247	—	7,247
Long-term notes payable and loans payable and short-term borrowings	25,924	255,439	—	281,363
Total obligations as of December 31, 2020	\$ 198,739	\$ 262,686	\$ —	\$ 461,425

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(d) Market Risk

(i) Currency Risk

The operating results and balance sheet of the Company are reported in U.S. dollars. As of June 30, 2021 and December 31, 2020, the Company's financial assets and liabilities are denominated primarily in U.S. dollars. However, from time to time some of the Company's financial transactions are denominated in currencies other than the U.S. dollar. The results of the Company's operations are subject to currency transaction and translation risks. The Company recorded \$0.4 million and \$1.0 million in foreign exchange losses during the three and six months ended June 30, 2021, respectively. The Company recorded a \$0.2 million foreign exchange loss and \$nil in foreign exchange gain or loss during the three and six months ended June 30, 2020, respectively. See Note 13 for additional details.

As of June 30, 2021 and December 31, 2020, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. An increase or decrease in the Company's incremental borrowing rate by 10% would result in an associated increase or decrease in Deferred consideration, contingent consideration and other payables and Interest expense, net of \$0.2 million. The Company's effective interest rates for its Amended Term Loan range from 15.8% to 17.7% and the stated interest rate varies from 12.0% to 12.7% based on the term elected by the lender. See Note 11 for further information.

(iii) Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company is subject to price risk related to derivative liabilities and contingent consideration that are valued based on the Company's own stock price. An increase or decrease in stock price by 10% would result in an associated increase or decrease to Deferred consideration, contingent consideration and other payables, Derivative liabilities, long-term and Deferred consideration and contingent consideration with a corresponding change to Other (expense) income, net. As of June 30, 2021 an increase or decrease in stock price by 10% would result in an impact of \$6.2 million or \$5.9 million, respectively.

(iv) Tax Risk

Tax risk is the risk of changes in the tax environment that would have a material adverse effect on the Company's business, results of operations, and financial condition. Currently, state licensed marijuana businesses are assessed a comparatively high effective federal tax rate due to IRC Section 280E, which bars businesses from deducting all expenses except their cost of goods sold when calculating federal tax liability. Any increase in tax levies resulting from additional tax measures may have a further adverse effect on the operations of the Company, while any decrease in such tax levies will be beneficial to future operations. See Note 20 for the Company's disclosure of uncertain tax positions.

(v) Regulatory Risk

Regulatory risk pertains to the risk that the Company's business objectives are contingent, in part, upon the compliance of regulatory requirements. Due to the nature of the industry, the Company recognizes that regulatory requirements are more stringent and punitive in nature. Any delays in obtaining, or failure to obtain regulatory approvals can significantly delay operational and product development and

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can have a material adverse effect on the Company's business, results of operation, and financial condition. The Company is cognizant of the advent of regulatory changes occurring in the cannabis industry on the city, state, and national levels. Although regulatory outlook on the cannabis industry has been moving in a positive trend, the Company is aware of the effect that unforeseen regulatory changes could have on the goals and operations of the business as a whole.

NOTE 17. 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 Condensed Interim Consolidated Balance Sheets as of June 30, 2021 and December 31, 2020. All of these entities were determined to be VIEs as the Company possesses the power to direct activities through written agreements:

	June 30, 2021		December 31, 2020	
	Cresco Labs Michigan, LLC	Cresco Labs Michigan, LLC	Cresco Labs Michigan, LLC	Cresco Labs, LLC
<i>(\$ in thousands)</i>				
Current assets	\$ 28,452	\$ 7,111	\$ 830,828	
Non-current assets	33,179	14,744	143,449	
Current liabilities	(49,858)	(20,898)	(849,691)	
Non-current liabilities	(21,019)	(2,986)	(83,138)	
Non-controlling interests	—	—	97,180	
Equity attributable to Cresco Labs Inc.	(9,246)	(2,029)	(55,732)	

As of June 30, 2021, control of Cresco Labs, LLC resides with management, therefore Cresco Labs, LLC is no longer a variable interest entity and has been consolidated for all periods presented.

The following table presents the summarized financial information about the Company's consolidated VIEs which are included in the Unaudited Condensed Interim Consolidated Statements of Operations for the six months ended June 30, 2021 and for the year ended December 31, 2020:

	June 30, 2021		December 31, 2020	
	Cresco Labs Michigan, LLC	Cresco Labs Michigan, LLC	Cresco Labs, LLC	Cresco Labs, LLC
<i>(\$ in thousands)</i>				
Revenue	\$ 2,114	\$ 2,916	\$ 98,786	
Net income (loss) attributable to non-controlling interests	—	—	6,666	
Net income (loss) attributable to Cresco Labs Inc.	(3,909)	(1,796)	10,204	
Net income (loss)	(3,909)	(1,796)	16,870	

NOTE 18. SEGMENT INFORMATION

The Company operates in one segment, the cultivation, manufacturing, distribution, and sale of cannabis. The Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, and the Chief Commercial Officer of the Company have been identified as the Chief Operating Decision Makers ("CODM") and manage the Company's operations as a whole. For the purpose of evaluating financial performance and allocating resources, the CODM's review financial information presented on a consolidated basis accompanied by information by customer and geographic region.

For the three and six months ended June 30, 2021, the Company generated 100.0% and 99.2%, respectively, of its revenue in the United States with the remainder generated in Canada. For the three and six months ended June 30, 2020, the Company generated 97.7% and 97.5%, respectively, of its revenue in the United States with the remainder generated in Canada.

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NOTE 19. INTEREST (EXPENSE) INCOME, NET

Interest expense, net consisted of the following for the three and six months ended June 30, 2021 and 2020:

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Interest expense – leases	\$ (1,023)	\$ (757)	\$ (1,960)	\$ (1,322)
Interest expense – notes and loans payable	(6,034)	(3,739)	(12,055)	(6,428)
Accretion of debt discount and amortization of deferred financing fees	(1,563)	(1,285)	(2,983)	(2,207)
Interest expense – financing activities related to sale-leasebacks	(2,796)	(2,694)	(5,633)	(5,240)
Other interest expense ¹	(362)	463	(694)	101
Interest income	297	280	542	568
Total Interest expense, net	\$ (11,481)	\$ (7,732)	\$ (22,783)	\$ (14,528)

¹During the three months ended June 30, 2020, the Company recorded a reduction in interest expense of \$0.5 million related to the Valley AG operating cash flows consideration, resulting in a negative Other interest expense balance for the 2020 periods.

See Note 11 for additional information on notes and loans payable and Accretion of debt discount and amortization of deferred financing fees.

NOTE 20. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES

As the company operates in the legal cannabis industry, the Company is subject to the limits of IRC Section 280E for US federal income tax purposes as well as state income tax purposes for all states except California and Arizona. Under IRC Section 280E, the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E. However, the State of California and State of Arizona do not conform to IRC Section 280E and, accordingly, the Company deducts all operating expenses on its California Franchise Tax Returns and Arizona Corporate Income Tax Returns.

The Company is treated as a United State corporation for US federal income tax purposes under IRC Section 7874 and is subject to US federal income tax on its worldwide income. However, for Canadian tax purposes, the Company, regardless of any application of IRC Section 7874, is treated as a Canadian resident company (as defined in the Income Tax Act (Canada) (the “ITA”) for Canadian income tax purposes. As a result, the Corporation is subject to taxation both in Canada and the United States.

The following table summarizes the Company’s income tax expense and effective tax rates for the three and six months ended June 30, 2021 and 2020:

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Income (loss) before income taxes	\$ 16,116	\$ (28,573)	\$ 7,516	\$ (52,846)
Income tax expense	\$ 13,463	\$ 13,126	\$ 28,987	\$ 24,314
Effective tax rate	83.5 %	(45.9)%	385.6 %	(46.0)%

The Company determined that the tax impact of certain arrangements between its management companies and operating companies do not meet the more likely than not threshold under ASC 740-10 due to the evolving

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interpretations of IRC Section 280E. As a result, the Company recorded a reserve for an uncertain tax position of \$5.1 million and \$4.7 million as of June 30, 2021 and December 31, 2020, respectively.

NOTE 21. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 13, 2021, which is the date on which these financial statements were issued.

On August 12, 2021, Cresco Labs, LLC, a subsidiary of Cresco Labs Inc., entered into a credit agreement for a senior secured term loan (“2021 Term Loan”) with an initial principal balance of \$400.0 million. The facility has a five (5) year term with an interest rate of 9.5%. Under the agreement, the Company is subject to certain financial and non-financial covenants. In conjunction with the closing of the 2021 Term Loan, the Company repaid the existing Term Loan for \$188.3 million, as well as \$18.9 million related to accrued interest, exit fees and prepayment premiums.