# FLRISH, INC.

## UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

*(Amounts Expressed in United States Dollars Unless Otherwise Stated*)

NOTICE TO READER

The accompanying unaudited condensed consolidated interim financial statements of FLRish, Inc. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

**FLRISH, INC.**
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**As of March 31, 2019 and December 31, 2018**
*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

| | | March 31, 2019 (Unaudited) | December 31, 2018 (Audited) |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash | | $ 11,511,191 | $ 14,762,661 |
| Accounts Receivable - Related Party, net | Note 12 | 23,328,149 | 20,081,652 |
| Prepaid Expenses | | 376,386 | 69,584 |
| **Total Current Assets** | | **35,215,726** | **34,913,897** |
| **Non-current Assets** | | | |
| Property and Equipment, Net | Note 4 | 10,388,388 | 9,236,133 |
| Notes Receivable - Related Party, net | Note 12 | 6,625,259 | 6,496,786 |
| Deposits | | 4,730 | 277,130 |
| **Total Non-Current Assets** | | **17,018,377** | **16,010,049** |
| **Total Assets** | | **$ 52,234,103** | **$ 50,923,946** |
| **Liabilities and Shareholders' Equity (Deficit)** | | | |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Accounts Payable and Accrued Liabilities | Note 5 | $ 6,083,216 | $ 5,961,141 |
| Notes Payable and Accrued Interest, Current Portion | Note 6 | 980,774 | 1,561,258 |
| Notes Payable and Accrued Interest - Related Party | Note 6 | - | - |
| Deferred Gain on Sale of Equipment, Current Portion | Note 14 | 38,553 | 38,553 |
| **Total Current Liabilities** | | **7,102,543** | **7,560,952** |
| **Long Term Liabilities** | | | |
| Derivative Liability | Note 8 | 27,894,888 | 28,126,745 |
| Deferred Gain on Sale of Equipment, Net of Current Portion | Note 14 | 244,172 | 253,810 |
| Deferred Rent | Note 16 | 152,000 | 129,200 |
| Convertible Debentures | Notes 7, 8 | 20,011,803 | 17,679,766 |
| **Total Long Term Liabilities** | | **48,302,863** | **46,189,521** |
| **Total Liabilities** | | **55,405,406** | **53,750,473** |
| **Shareholders' Equity (Deficit)** | | | |
| Share Capital | Note 9 | 28,144,261 | 27,101,578 |
| Contributed Surplus | | (7,286,831) | (8,332,513) |
| Warrants | Note 10 | 1,022,772 | 1,022,772 |
| Accumulated Deficit | | (25,051,505) | (22,618,364) |
| **Total Shareholders' Equity (Deficit)** | | **(3,171,303)** | **(2,826,527)** |
| **Total Liabilities and Shareholders' Equity** | | **$ 52,234,103** | **$ 50,923,946** |

Nature of operations (Note 1)
Concentrations and Risks (Note 15)
Commitments and Contingencies (Note 16)
Subsequent events (Note 19)

**Approved and authorized on behalf of the Board of Directors on June 9, 2019**

**FLRISH, INC.**
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**For the Three Months Ended March 31, 2019 and 2018**
*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

| | | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|---|
| Services Revenue - Related Party | Note 12 | $ 5,203,757 | $ 3,432,015 |
| Rental Revenue - Related Party | Note 13 | 1,099,319 | 1,099,319 |
| **Total Revenue** | | **6,303,076** | **4,531,334** |
| Cost of Revenue | | 2,565,438 | 1,404,780 |
| **Gross Profit** | | **3,737,638** | **3,126,554** |
| **Expenses** | | | |
| General and Administrative | | 2,463,581 | 2,772,257 |
| Professional Fees | | 675,163 | (164,874) |
| Share-Based Compensation | Notes 10, 11 | 1,514,804 | 482,996 |
| Depreciation and Amortization | Note 4 | 213,896 | 70,651 |
| **Total Operating Expenses** | | **4,867,444** | **3,161,030** |
| **Loss from Operations** | | **(1,129,806)** | **(34,476)** |
| **Other Income (Expense)** | | | |
| Interest Expense, Net | | (2,001,949) | (401,710) |
| Gain on Sale of Equipment | | 9,638 | 22,538 |
| Change in Fair Value of Derivative Liability | Note 8 | 1,059,380 | - |
| Other Expenses | | - | (10,400) |
| **Total Other Income (Expense)** | | **(932,931)** | **(389,572)** |
| **Loss Before Provision for Income Taxes** | | **(2,062,737)** | **(424,048)** |
| Provision for Income Taxes | | - | - |
| **Net Loss Before Non-Controlling Interest** | | **(2,062,737)** | **(424,048)** |
| Net Loss Attributable to Non-Controlling Interest | | - | (424,048) |
| Net Loss Attributable to FLRish, Inc. | | $ (2,062,737) | $ - |

**FLRISH, INC.**
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**
**For the Three Months Ended March 31, 2019 and 2018**
*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

| | | Share Capital | Contributed Surplus | Warrants | Accumulated Deficit | Non-Controlling Interest | Total |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2018 | | $ 100,949 | $ 231,989 | $ - | $ (10,278,898) | $ 9,139,504 | $ (806,456) |
| Adjustment Related to the Adoption of IFRS 9 - Credit Loss Reserve | | $ - | $ - | $ - | (493,740) | $ - | (493,740) |
| Exercise of Stock Options | Note 11 (a) | 782 | - | - | - | - | 782 |
| Share-Based Compensation | Note 11 (a) | - | 13,875 | - | - | - | 13,875 |
| Net Loss | | - | - | - | (424,048) | (424,048) | (848,096) |
| Balance, March 31, 2018 | | 101,731 | 245,864 | - | (11,196,686) | 8,715,456 | (2,133,635) |
| Balance, January 1, 2019 | | $ 27,101,578 | $ (8,332,513) | $ 1,022,772 | $ (22,618,364) | $ - | (2,826,527) |
| Exercise of Stock Options | Note 11 (a) | 1,250 | - | - | - | - | 1,250 |
| Share-Based Compensation | Note 11 (a) | - | 1,045,682 | - | - | - | 1,045,682 |
| Series A Preferred Stock Dividends | Note 9 (a) | - | - | - | (370,404) | - | (370,404) |
| Issuance of shares as settlement for interest payable | Note 9 (c) | 1,041,433 | - | - | - | - | 1,041,433 |
| Net Loss | | - | - | - | (2,062,737) | - | (2,062,737) |
| Balance, March 31, 2019 | | $ 28,144,261 | $ (7,286,831) | $ 1,022,772 | $ (25,051,505) | $ - | $ (3,171,303) |

**FLRISH, INC.**
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the Three Months Ended March 31, 2019 and 2018**
*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

| | For the Three Months Ended March 31, 2019 (Unaudited) | For the Three Months Ended March 31, 2018 (Unaudited) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Loss | $ (2,062,737) | $ (424,048) |
| Adjustments to Reconcile Net Loss to Net Cash Used In Operating Activities: | | |
| Depreciation and Amortization | 213,896 | (70,651) |
| Accreted Interest | 1,368,410 | - |
| Amortization of Note Receivable Discount - Related Party | (67,683) | - |
| Amortization of Debt Issuance Costs | 13,500 | - |
| Change in Fair Value of Derivative Liability | (1,059,380) | - |
| Share Based Compensation | 1,045,682 | 13,875 |
| Deferred Rent | 22,800 | 22,800 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable - Related Party | (3,246,497) | (2,566,630) |
| Prepaid Expenses | (306,802) | (55,738) |
| Deposits | 272,400 | (23,572) |
| Accounts Payable and Accrued Liabilities | (248,329) | 384,370 |
| Accrued Interest | 1,041,433 | - |
| Deferred Gain on Sale of Equipment | (9,638) | (9,639) |
| **NET CASH USED IN OPERATING ACTIVITIES** | (3,022,945) | (2,729,233) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of Property and Equipment | (1,366,151) | (1,039,149) |
| Advances on Notes Receivable - Related Party | (657,714) | (189,608) |
| Payments Received on Notes Receivable - Related Party | 596,924 | 596,924 |
| **NET CASH USED IN INVESTING ACTIVITIES** | (1,426,941) | (631,833) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from Convertible Debentures, Net of Loan Fees | 1,857,166 | - |
| Proceeds from Notes Payable, Net of Loan Fees | - | 2,847,432 |
| Payments on Notes Payable - Related Party | (660,000) | - |
| Proceeds from Exercise of Stock Options | 1,250 | 781 |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | 1,198,416 | 2,848,213 |
| **INCREASE (DECREASE) IN CASH** | (3,251,470) | (512,853) |
| **CASH, BEGINNING OF PERIOD** | 14,762,661 | 1,490,612 |
| **CASH, END OF PERIOD** | $ 11,511,191 | $ 977,759 |
| **Supplementary information:** | | |
| Interest Paid | $ - | $ 173,082 |
| **Non-Cash Investing and Financing Activities** | | |
| Cumulative Impact of Adoption of IFRS 9 | $ - | $ 493,740 |
| Accrued Dividends | $ 370,404 | $ - |
| Fair Value of Derivative Liability Upon Issuance | $ 827,523 | $ - |
| Shares issued for Interest Payable | $ 1,041,433 | $ - |

See accompanying notes to the unaudited interim condensed consolidated financial statements

## 1. NATURE OF OPERATIONS

FLRish, Inc. ("FLRish"), a California corporation, was incorporated on November 24, 2015, under the California Corporations Code in the United States of America.

FLRish, together with its wholly owned subsidiaries (collectively, the "Company"), provide real estate rental, advisory and administrative services as well as services related to the processing, retailing and dispensing of cannabis, cannabis infused products ("CIPS"), related products, and educational materials connected with the operation of marijuana businesses located in the State of California (the "State").

The address of the Company's principal place of business and registered records office address is 2100 Embarcadero, Suite 205, Oakland, California, United States of America.

## 2. BASIS OF PREPARATION

### (a) Statement of Compliance

The unaudited interim condensed consolidated financial statements for the three months ended March 31, 2019 and 2018, have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), using accounting polices consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The unaudited interim condensed consolidated financial statements do not include all of the information required for full annual financial statements. The accounting policies and crucial estimates used in preparing these unaudited interim condensed consolidated financial statements are the same as those disclosed in Note 3 to the Company's annual consolidated financial statements as of and for the year ended December 31, 2018.

Accordingly, these unaudited interim condensed financial statements should be read in conjunction with the December 31, 2018, audited consolidated financial statements of the Company and related notes thereto.

These unaudited interim condensed consolidated financial statements were approved and authorized for issue by the board of directors of the Company on June 9, 2019.

### (b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial liabilities including derivatives, which have been measured at fair value.

## 2. BASIS OF PREPARATION (Continued)

### (c) Functional Currency

These unaudited interim condensed consolidated financial statements are presented in United States dollars. The functional currency of the Company and its subsidiaries is the United States dollar. Foreign currency transactions are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting date. All differences are recorded in the consolidated statements of income (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

### (d) Basis of Consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and exposures, or rights, to the variable returns from its activities. The financial statements of subsidiaries are included in the unaudited interim condensed consolidated financial statements from the date that control commences until the date that control ceases. The accounts of subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies. A summary of the Company's subsidiaries is as follows at December 31, 2018 and 2017:

| Entity | Place of incorporation | 2018 Effective ownership | 2017 Effective ownership |
|---|---|---|---|
| FLRish IP, LLC | California | 100% | 100% |
| FLRish Retail, LLC | California | 100% | 100% |
| FLRish Retail Management & Security Services, LLC (RMCO) | California | 100% | 100% |
| FLRish Retail Affiliates, LLC | California | 100% | 100% |
| FLRish Flagship Enterprises, Inc. (formerly FLRish Farms, Inc.) | California | 100% | 100% |
| FLRish Farms, Inc. (formerly FLRish Farms, LLC ) | California | 100% | 100% |
| Savature, Inc (formerly Savature, LLC) | California | 100% | 68.5% |
| Savaca, LLC | California | 100% | 68.5% |
| FFC1, LLC | California | 100% | 68.5% |
| FLRish Farms Cultivation 8, LLC | California | 100% | 68.5% |

All intercompany balances and transactions have been eliminated upon consolidation.

On April 26, 2018, the Company acquired the non-controlling ownership interests in Savature, LLC, Savaca, LLC, FFC1, LLC, and FLRish Farms Cultivation 8, LLC.

## 3. SIGNIFICANT TRANSACTIONS

### (a) Multi Party Merger Agreement

On April 29, 2018, FLRish Flagship Enterprises, Inc. ("FFE"), a wholly owned subsidiary of the Company, entered into a Multi Party Merger Agreement (the "MPMA") with a 50% shareholder ("Shareholder 1") of PMACC. The MPMA relates to the potential exchange of FLRish shares for shares of PMACC and San Jose Wellness Solutions Corp. ("SJW") and the subsequent merger of those entities into FFE.

Under the terms of the MPMA, FLRish issued 1,204,819 shares of Series B Common stock, which were placed in escrow until either of the following occur: (a) a purchase agreement is obtained from the other 50% shareholder of PMACC ("Shareholder 2"); or (b) a forced buyout of Shareholder 2's interests can occur and is exercised by Shareholder 1 and paid for by the Company at its discretion. In the event that neither of those events occur prior to the sixty-sixth month from the effective date of the MPMA, the agreement shall be cancelled, and the shares returned to the Company.

On September 27, 2018, Shareholder 2 entered into a binding term sheet with the Company relating to the exchange, by merger, of all of the stock of PMACC and SJW in exchange for initial consideration equal to 1,686,547 shares of Series B Common Stock and later consideration equal to 30% of the difference between $29,000,000 and the final judgment amount, or a negotiated settlement amount, of the tax litigation related to PMACC and SJW, payable in stock at the value at such time.

On January 7, 2019, the Company entered into merger option agreements that superseded prior MPMA agreements, providing the right to purchase, and merge into subsidiaries of FLRish, all of the interests of PMACC and SJW with Shareholder 1 and Shareholder 2. Pursuant to the terms of the merger option agreements, the Company has the right to exercise the merger options at any time. Upon completion of the merger, the Company will release from escrow, 1,581,467 Series B Common Shares to Shareholder 1 and 2,469,781 Series B Common Shares to Shareholder 2.

**(b) Reverse Take Over**

On February 8, 2019, FLRish, Lineage Grow Company Ltd. ("Lineage") and Lineage Merger Sub Inc., a wholly owned subsidiary of Lineage ("Merger Sub"), entered into a merger agreement as amended on April 17, 2019 (the "Merger Agreement"), pursuant to which, among other things, FLRish would complete the reverse takeover of Lineage (the "Transaction"). The Transaction was completed on May 30, 2019. Subject to the terms and conditions of the Merger Agreement: (i) each share of FLRish Series A Common Stock was exchanged for 1/100 of a Multiple Voting Share; (ii) each share of FLRish Series B Common Stock (including the FLRish Underlying Shares) was exchanged for 1/100 of a Multiple Voting Share; (iii) each share of FLRish Series C Common Stock was exchanged for 1/100 of a Multiple Voting Share; (iv) each share of FLRish Series D Common Stock was exchanged for one Subordinate Voting Share; and (v) each dissenting share (if any) was converted into the right to receive payment from the Resulting Issuer with respect thereto in accordance with the California Corporations Code, as amended. All convertible securities of FLRish, to the extent not exercised or converted at the time of closing of the Transaction and outstanding immediately before close of the Transaction, whether vested or unvested, automatically and without any required action on the part of any holder or beneficiary thereof, became Resulting Issuer convertible securities exercisable or convertible into an option, warrant, convertible or exchangeable security or other right, as applicable, to purchase or acquire a number of Subordinate Voting Shares or Multiple Voting Shares, as applicable.

On completion of the Transaction, Lineage was renamed "Harborside, Inc." (the "Resulting Issuer"). The Subordinate Voting Shares of the Resulting Issuer are expected to be listed for trading on the Canadian Securities Exchange on or about June 10, 2019.

On completion of the Transaction, FLRish security holders hold approximately 90% of the voting shares of the Resulting Issuer. As a result, the Transaction will be accounted for as a business combination, with FLRish being identified as the acquirer.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 4. PROPERTY AND EQUIPMENT

Property and Equipment assets consists of the following at March 31, 2019 and December 31, 2018:

| | Agricultural buildings | Agricultural equipment | CIP | Furniture and fixtures | Land | Office and computer equipment | Security equipment | Leasehold improvements | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| **At Cost** | | | | | | | | | |
| As at January 1, 2018 | $ 326,300 | $ 408,504 | $ 6,282,124 | $ 7,997 | $ - | $ 147,581 | $ 25,419 | $ 2,572 | $ 7,200,497 |
| Additions | 2,333,719 | 2,810,299 | 1,171,327 | - | - | 4,855 | - | - | 6,320,200 |
| Disposals | - | - | (240,000) | - | - | - | - | - | (240,000) |
| Reclass on Completed Phase of Contruction | - | - | (3,267,910) | - | - | - | - | - | (3,267,910) |
| As at December 31, 2018 | 2,660,019 | 3,218,803 | 3,945,541 | 7,997 | - | 152,436 | 25,419 | 2,572 | 10,012,787 |
| Additions | - | 7,515 | 1,357,326 | - | | 1,310 | - | - | 1,366,151 |
| Disposals | - | - | - | - | - | - | - | - | - |
| Reclass on Completed Phase of Contruction | - | - | - | - | - | - | - | - | - |
| **As at March 31, 2019** | $ 2,660,019 | $ 3,226,318 | $ 5,302,867 | $ 7,997 | $ - | $ 153,746 | $ 25,419 | $ 2,572 | $ 11,378,938 |
| **Accumulated Depreciation** | | | | | | | | | |
| As at January 1, 2018 | $ 6,259 | $ 64,940 | $ - | $ 1,523 | $ - | $ 32,561 | $ 545 | $ 28 | $ 105,856 |
| Depreciation expense | 137,932 | 481,122 | - | 1,142 | - | 45,346 | 5,084 | 172 | 670,798 |
| Disposals | - | - | - | - | - | - | - | - | - |
| As at December 31, 2018 | 144,191 | 546,062 | - | 2,665 | - | 77,907 | 5,629 | 200 | 776,654 |
| Depreciation expense | 44,463 | 160,244 | | 286 | | 7,603 | 1,271 | 29 | 213,896 |
| Disposals | - | - | - | - | - | - | - | - | - |
| **As at March 31, 2019** | $ 188,654 | $ 706,306 | $ - | $ 2,951 | $ - | $ 85,510 | $ 6,900 | $ 229 | $ 990,550 |
| **Net Book Value** | | | | | | | | | |
| As at December 31, 2018 | $ 2,515,828 | $ 2,672,741 | $ 3,945,541 | $ 5,332 | $ - | $ 74,529 | $ 19,790 | $ 2,372 | $ 9,236,133 |
| **As at March 31, 2019** | $ 2,471,365 | $ 2,520,012 | $ 5,302,867 | $ 5,046 | $ - | $ 68,236 | $ 18,519 | $ 2,343 | $ 10,388,388 |

Assets under construction in progress ("CIP") is related to a cultivation facility not yet completed or otherwise not ready for use. Depreciation begins for property and equipment in CIP when the items are placed in service. For the three months ended March 31, 2019, $nil of CIP was placed in service resulting in net additions in property and equipment of $8,827.

Depreciation and amortization expense for the three months ended March 31, 2019 and 2018, totaled $213,896 and $150,272, respectively.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at March 31, 2019 and December 31, 2018:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | (Unaudited) | (Audited) |
| Accounts payable | $ 3,071,698 | $ 1,750,212 |
| Accrued liabilities | 1,098,379 | 1,002,986 |
| Income taxes payable | 8,000 | 8,000 |
| Accrued payroll | 561,728 | 450,289 |
| Series B Payable | - | 1,776,646 |
| Accrued dividends | 1,343,411 | 973,008 |
| | **$ 6,083,216** | **$ 5,961,141** |

## 6. NOTES PAYABLE AND ACCRUED INTEREST

Notes payable consists of the following at December 31, 2018 and 2017:

| | | March 31, 2018 | December 31, 2018 |
|---|---|---|---|
| | | (Unaudited) | (Audited) |
| Term loan | (a) | 1,120,000 | 1,780,000 |
| Total notes payable | | 1,120,000 | 1,780,000 |
| Less difference in fair value to principal amount | (a) | (112,226) | (178,242) |
| Less unamortized debt issuance costs | (a) | (27,000) | (40,500) |
| Net amount | | 980,774 | 1,561,258 |
| Less notes payable, current portion | | (980,774) | (1,561,258) |
| **Notes payable, net of current portion** | | **$ -** | **$ -** |

## 6. NOTES PAYABLE AND ACCRUED INTEREST (Continued)

### (a) Term Loan

On July 18, 2017, Savature entered into a loan agreement (the “CFP Loan”) with CFP Fund I, LLC ("CFP”). The Company may borrow up to $9,300,000 in increments of no less than $100,000. The CFP Loan carries a 15% annual interest rate and a five-year term. Interest accrued on the CFP Loan is paid monthly. The CFP Loan is collateralized by all assets owned by Savature. The CFP Loan was converted to a term loan upon final draw down of the available loan amount for a total $9,300,000 on May 3, 2018, with a 60-month term maturing June 1, 2023.

On September 7, 2018, the Company received a notice of default from CFP. Management responded to the notice and believes all items identified in the notice have been cured. In response, the Company asserted its default remedies against CFP to reduce loan principal consistent with terms outlined in the loan documents. On December 17, 2018, the Company entered into a settlement agreement with CFP, pursuant to which the parties agreed to settle all claims with respect to the loan.

The terms of the settlement agreement provide that the Company shall pay to CFP all outstanding principal balance at December 17, 2018 as follows: $2,000,000 payable in monthly installments ending in September 2019 and issuance of 8,624 Series B Debenture Units on the same terms as those offered in the Company’s Series B Unit Offering (Note 7). The CFP Loan requires Savature to meet certain financial covenants. Savature believes that it was in compliance with all associated financial covenants as of March 31, 2019, and the date the consolidated financial statements were available to be issued.

As of March 31, 2019, and December 31, 2018, the unamortized loan fee was $27,000 and $40,500, respectively, and the principal balance net of unamortized loan fees and accreted interest was $980,774 and $1,561,258, respectively. The current portion, net of loan issuance cost was $0 and $0, at March 31, 2019 and December 31, 2018, respectively.

## 7. CONVERTIBLE DEBENTURES

In October and November of 2018 and February of 2019, the Company completed a private placement (the "Unit Offering") of 37,228 units of the Company (the "Series B Debenture Units") at a price of CAD $1,000 per Unit (the "Offering Price"). The Company completed the initial closing of the Series B Debenture Unit Offering on October 30, 2018, with the issuance and sale of 6,212 Series B Debenture Units. On November, 16, 2018, the Company completed the second closing of the Series B Debenture Unit Offering with the issuance and sale of 28,566 Series B Debenture Units. On February 6, 2019, the Company completed the third closing of the Series B Debenture Unit Offering with the issuance and sale of 2,450 Series B Debenture Units.

Each Series B Debenture Unit is comprised of CAD $1,000 principal amount of 12.0% unsecured convertible debentures ("Debentures") and 87 share purchase warrants ("Warrants").

The Series B Debentures are governed by a debenture indenture dated as of October 30, 2018, between FLRish and Odyssey Trust Company as debenture trustee. The Debentures will mature on October 30, 2021 (the "Maturity Date"), and bear interest at a rate of 12.0% per annum, payable, semi-annually in arrears. Interest will be payable in cash or by issuing shares of Series B Common stock of FLRish ("Underlying Shares"). The principal amount of each Debenture will be convertible into Underlying Shares at the option of the holder at any time prior to the Maturity Date and automatically upon completion of a Going Public Transaction (Note 3 (b)) at a conversion price equal to the lower of: (a) CAD $6.90; or (b) a 10% discount to the Resulting Issuer's (Note 3 (b)) share price at listing for a financing equal to CAD $5,000,000 or greater, subject to adjustment. FLRish has the right to prepay the principal amount of the Debentures at any time. Each Warrant is exercisable into one Underlying Share at a price of CAD $8.60 per share until October 30, 2020, subject to adjustment and/or acceleration in certain circumstances. The Warrants are governed by a warrant indenture dated as of as of October 30, 2018, between FLRish and Odyssey Trust Company as warrant agent.

The conversion price of the Series B Debenture Unit and the exercise price of the warrants issued are denominated in a currency other than the Company's functional currency. As such, the conversion feature has been bifurcated from the underlying host and is being accounted for as derivative liability along with the warrants in accordance with IFRS 9 (Note 8).

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 8. DERIVATIVE LIABILITY

A reconciliation of the beginning and ending balances of the derivative liabilities for the year ended December 31, 2018 is as follows:

| | **Debentures** | Series A Derivative Liability | Debentures Derivative Liability | Warrants Derivative Liability | **Total Derivative Liabilities** | Income Statement<br>Change in Fair Value |
|---|---|---|---|---|---|---|
| Balance, As of January 1, 2018 | $ - | $ - | $ - | $ - | $ - | $ - |
| Fair Value of Derivative Liability Value on Issuance Date | 18,631,134 | 12,773,435 | 9,764,246 | 5,885,061 | 28,422,743 | |
| Financing costs at issuance | (1,270,294) | | | | - | |
| Accretion of Balance | 808,561 | | | | - | 808,561 |
| Change in Fair Value of Derivative Liability | | 510,272 | (621,945) | (184,325) | (295,997) | (295,997) |
| Change due to Foreign Exchange | (489,635) | | | | - | (489,635) |
| Balance, As of December 31, 2018 | **$ 17,679,766** | $ 13,283,707 | $ 9,142,301 | $ 5,700,737 | **$ 28,126,745** | $ 22,929 |
| Fair Value of Derivative Liability Value on Issuance Date | 1,029,643 | - | 514,079 | 313,444 | 827,523 | |
| Accretion of Balance | 1,815,305 | - | - | - | - | 1,815,305 |
| Change in Fair Value of Derivative Liability | - | 460,551 | (1,237,721) | (282,210) | (1,059,380) | (1,059,380) |
| Change due to Foreign Exchange | (512,911) | | | | - | (512,911) |
| Balance, As of March 31, 2018 | **$ 20,011,803** | $ 13,744,258 | $ 8,418,659 | $ 5,731,971 | **$ 27,894,888** | $ 243,014 |

### (a) Series A Preferred Stock Derivative Liability

The IASB has issued authoritative guidance whereby instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The conversion price of the Series A Preferred Stock described in Note 9 (a) was not a fixed amount because it was subject to an adjustment based on the occurrence of future offerings. Since the number of shares is not explicitly limited, the Company is unable to conclude that enough authorized and unissued shares are available to settle the conversion option. In accordance with the IFRS authoritative guidance, the conversion feature has been characterized as a derivative liability to be re-measured at the end of every reporting period with the change in fair value reported in the statement of operations.

As of the dates of issuance of the Series A Preferred Stock, December 31, 2018 and March 31, 2019 the derivative liability was valued using the Monte Carlo simulation model with the following assumptions:

| | **At Issuance** | **December 31, 2018** | **March 31, 2019** |
|---|---|---|---|
| Risk Free Interest Rate | 3.5 % | 3.5 % | 3.5 % |
| Exercise Price | $ 2.27 - 4.15 | $ 2.27 - 4.15 | $ 2.37 - 4.15 |
| Stock Price | $ 3.74 | $ 4.43 | $ 4.82 |
| Expected volatility | 98.22% - 104.81 % | 83.79% - 104.82 % | 80.67% - 90.17 % |
| Expected life (in years) | 1.00 - 2.00 | 0.33 - 2.00 | 0.25 - 1.08 |
| Expected dividend | 8 % | 8 % | 8 % |
| Fair Value: | $ 12,773,435 | $ 13,283,707 | $ 13,744,258 |

The risk-free interest rate was based on data from Duff & Phelps 2018 Valuation Handbook - Guide to Cost of Capital. The expected lives were based on the anticipated date to public offering. The expected dividend yield was based on the rate as stated in the terms of the series A Preferred Stock. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company going public.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 8. DERIVATIVE LIABILITY (Continued)

During the three-months ended March 31, 2019 and the year ended December 31, 2018, the fair value of the derivative liability increased by $460,551 and $510, 272, respectively.

### (b) Convertible Debentures Derivative Liability

As of October 30, 2018, November 16, 2018, December 17, 2018 and February 6, 2019, the dates of issuance of the Series B Debenture Units, the derivative liability related to the conversion feature was valued using the Monte Carlo model with the following assumptions:

| | At Issuance | December 31, 2018 | March 31, 2019 |
|---|---|---|---|
| Risk Free Interest Rate | 3.5 % | 3.5 % | 3.5 % |
| Exercise Price | $ 5.16 - 5.26 | $ 5.06 | $ 5.17 |
| Stock Price | $ 4.33 - 4.82 | $ 4.43 | $ 4.82 |
| Expected volatility | 86.83% - 104.73 % | 83.79% - 104.82 % | 80.67% - 90.17 % |
| Expected life (in years) | 0.25 - 1.50 | 0.33 - 1.33 | 0.25 - 1.08 |
| Expected interest | 12 % | 12 % | 12 % |
| Fair Value: | $ 10,278,325 | $ 9,142,301 | $ 8,418,659 |

The risk-free interest rate was based on data from Duff & Phelps 2018 Valuation Handbook - Guide to Cost of Capital. The expected lives were based on the anticipated date of public listing. The expected interest was based on the rate as stated in the terms of the Series B Debentures. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company going public. For the three-months ended March 31, 2019 and the year ended December 31, 2018, the Company recognized a decrease in fair value of the derivative related to the conversion feature of $1,237,721 and $621,945, respectively.

### (c) Warrant Derivative Liability

As of October 30, 2018, November 16, 2018, December 17, 2018 and February 6, 2019, the dates of issuance of the Series B Debenture Units, the derivative liability related to the warrants was valued using the Monte Carlo model with the following assumptions:

| | At Issuance | December 31, 2018 | March 31, 2019 |
|---|---|---|---|
| Risk Free Interest Rate | 3.5 % | 3.5 % | 3.5 % |
| Exercise Price | $ 6.43 - 6.54 | $ 6.31 | $ 6.54 |
| Stock Price | $ 4.33 - 4.71 | $ 4.43 | $ 4.82 |
| Expected volatility | 88.33% - 104.73 % | 83.79% - 104.82 % | 80.67% - 90.17 % |
| Expected life (in years) | 0.37 - 1.50 | 0.33 - 1.33 | 0.25 - 1.08 |
| Expected interest | 12 % | 12 % | 12 % |
| Fair Value: | $ 6,201,238 | $ 5,700,737 | $ 5,731,971 |

## 8. DERIVATIVE LIABILITY (Continued)

The risk-free interest rate was based on data from Duff & Phelps 2018 Valuation Handbook - Guide to Cost of Capital. The expected lives were based on the anticipated date of public listing. The expected interest was based on the rate as stated in the terms of the Series B Debentures. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company going public. For the three-months ended March 31, 2019 and the year ended December 31, 2018, the Company recognized a decrease in the fair value of the derivative related to the warrants of $282,210 and $184,324, respectively.

## 9. SHARE CAPITAL

On April 29, 2018, the common shareholders of FLRish agreed to amend the articles of incorporation of FLRish in order to create and designate various classes of FLRish shares. The Amended and Restated Articles of FLRish (the "Amended Articles") approved by the shareholders of FLRish included the designation of five classes of stock: Series A-1 Preferred Stock, Series A-2 Preferred Stock, Series A Common Stock, Series B Common Stock, and Series C Common Stock. The Amended Articles authorized 91,000,000 shares of Common Stock comprised of 11,000,000 shares of Series A Common Stock, 40,000,000 shares of Series B Common Stock and 40,000,000 shares of Series C Common Stock, and 20,000,000 shares of Preferred Stock comprised of 6,250,000 shares of Series A-1 Preferred Stock and 6,250,000 shares of Series A-2 Preferred Stock.

In addition, upon such amendment and restatement of the existing certificate, each share of Common Stock was automatically changed and converted into one share of Class A Common Stock, and each stock option to purchase Common Stock was automatically changed and converted into one stock option to purchase Class A Common Stock.

The share types convert, upon certain occurrences, into other types of shares, generally of a non-voting nature or upon a qualified acquisition or initial public offering, into Series B Common Stock or Series C Common Stock in accordance with a ratio determined by the board of directors.

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

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

| | Series A-1 Preferred | Series A-2 Preferred | Common Stock | Series A Common | Series B Common | Series C Common |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2016** | - | - | 500,000 | - | - | - |
| Exercise of options | - | - | 1,949,872 | - | - | - |
| **Balance, December 31, 2017** | - | - | 2,449,872 | - | - | - |
| Conversion of Common stock to Series A Common | - | - | (2,449,872) | 2,449,872 | - | - |
| Exercise of options | - | - | - | 2,343,750 | - | - |
| Conversion of Junior and Senior Notes | 4,924,701 | 1,422 | - | - | - | - |
| New share issuance | 1,325,299 | - | - | - | - | - |
| LMS issuance | - | - | - | - | 11,156,627 | - |
| Share issuance in leiu of Series B Convertible Debenture Interest payment | - | - | - | - | 80,589 | - |
| Reserved upon issuance for PMACC purchase option | - | - | - | - | 1,204,819 | - |
| **Balance, December 31, 2018** | 6,250,000 | 1,422 | - | 4,793,622 | 12,442,035 | - |
| Share issuance in leiu of Series B Convertible Debenture Interest payment | - | - | - | - | 200,691 | - |
| Exercise of options | - | - | - | 25,000 | - | - |
| **Balance, December 31, 2018** | 6,250,000 | 1,422 | - | 4,818,622 | 12,642,726 | - |

As at March 31, 2019, the Company had the following shares issued and outstanding:

**(a) Series A-1 and Series A-2 Preferred Stock**

As of March 31, 2019, 6,250,000 shares of Series A-1 Preferred Stock, at no par value, were issued and outstanding and 0 shares of Series A-1 Preferred Stock were reserved for issuance. 1,422 shares of Series A-2 Preferred Stock were issued and outstanding and 0 shares of Series A-2 Preferred Stock reserved for issuance. No shares of Series A-1 and Series A-2 Preferred Stock were issued or outstanding at December 31, 2017.

The Series A-1 Preferred Stock is a class of voting preferred stock that was issued in the FLRish Series A offering and upon conversion of the Senior and Junior notes and the Murray Field & Company, LLC note. It has value weighted anti-dilution rights, accrues dividends at 8% per annum from the date of issuance, whether declared or not, possesses one vote per share, is senior to all other classes of stock in liquidation preference, and in the case of an unqualified merger or sale or on April 30, 2023, it has redemption rights equal to $5.20 per share plus accrued dividends. As of March 31, 2019, accrued dividends were $1,343,411. The redemption right terminates on the occurrence of a qualified acquisition or public offering. If a qualified transaction does not occur prior to October 30, 2019, the Series A-1 Preferred Stock is convertible into additional shares of Series B Common Stock in an amount equal to the percentage obtained by dividing the accrued dividend on such shares by the original Series A issue price.

The Series A-1 Preferred Stock is convertible at the option of the holders at any time into shares of Series B Common Stock at a conversion price of $4.15 per share. The conversion rate is subject to customary anti-dilution and other adjustments. The Series A-1 Preferred Stock is mandatorily convertible upon the occurrence of specified triggering events, including a qualified acquisition or qualified IPO. Series A-2 Preferred Stock is a class of preferred stock equivalent to the Series A-1 Preferred Stock but without voting rights. The board of directors of FLRish has the right to set the rights, privileges, preferences and obligations of any wholly unissued series of preferred stock.

## 9. SHARE CAPITAL (Continued)

On April 30, 2018, the Company issued 1,325,299 shares of Series A-1 Preferred Stock to various parties in exchange for aggregate gross proceeds of $5,500,000 (the "Series A Offering"). As a result of the Series A Offering, $12,304,398 in convertible notes and accrued interest thereon were converted into 4,924,701 shares of Series A-1 Preferred Stock and 1,422 shares of Series A-2 Preferred Stock. The Company recorded $292,118 in share issuance costs for expenses incurred related to the Series A Offering.

The conversion price in the Series A-1 Preferred Stock is subject to adjustment if the Company sells shares of its common stock in the future at a per-share price less than the conversion price. As such, the conversion feature has been bifurcated from the underlying host and is being accounted for as derivative liability in accordance with IFRS 9. See Note 8 (b).

### (b) Series A Common Stock

At March 31, 2019, 4,818,622 shares of Series A Common Stock, at no par value, were outstanding and 6,181,378 of Series A Common Stock shares were reserved for issuance. At December 31, 2018, 4,793,622 shares of Common Stock were outstanding and 6,206,378 of Common Stock shares were reserved for issuance.

Series A Common Stock is a class of voting common stock that possesses one vote per share and also possesses certain anti-dilution characteristics that are intended to preserve value among the Series A Common stockholders. The total number of shares of Series A Common Stock authorized for issuance was 11,000,000. The anti-dilution characteristics provide that the pre-Series A Common Stock subject to options or reserved for issuance that is not utilized or is otherwise cancelled would be reallocated among the Series A Common stockholders pro rata. Additionally, upon an acquisition any paid in capital would be allocated among the Series A Common stockholders, or a substitution of equivalent rights in a new plan would occur.

### (c) Series B and Series C Common Stock

At March 31, 2019, 11,437,907 shares of Series B Common Stock, at no par value, were outstanding and 28,562,093 shares of Series B Common Stock were reserved for issuance. There were no shares of Series C Common Stock outstanding and zero shares of Series C Common Stock were reserved for issuance. At December 31, 2018, 11,237,216 shares of Series B Common Stock, at no par value, were outstanding and 28,762,784 shares of Series B Common Stock were reserved for issuance.

On December 31, 2018, an aggregate of 80,589 shares of Series B Common Stock valued at $407,881 were issued to holders of Debentures in satisfaction of the first interest payment.

Series B Common Stock is a class of common equity that possesses one voting right per share. Series C Common Stock is a class of common equity that possesses no voting rights.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 10. WARRANTS

The activity for warrants outstanding for the three months ended March 31, 2019, is summarized as follows:

| | Number of Warrants | Weighted Avg. Exercise Price per share |
|---|---|---|
| | # | $ |
| **Balance December 31, 2017** | **-** | **-** |
| Series B Warrants Issued | 3,775,974 | 6.450 |
| Broker Warrants Issued | 168,303 | 4.150 |
| Advisory Warrants Issued | 143,241 | 4.150 |
| Expired or cancelled | - | - |
| **Balance December 31, 2018** | **4,087,518** | 6.275 |
| Series B Warrants Issued | 213,150 | 6.450 |
| **Balance March 31, 2019** | **4,300,668** | 6.283 |

Each Series B Warrant is exercisable into one Underlying Share at a price of CAD $8.60 ($6.45) per share until October 30, 2020, subject to adjustment and/or acceleration in certain circumstances. The warrants are governed by a warrant indenture dated as of as of October 30, 2018, between FLRish and Odyssey Trust Company as warrant agent. The Series B warrants are being accounted for as a derivative liability. See Note 8 (c).

In conjunction with the issuance of the Series B Debenture Units, each Broker and Advisory Warrant is exercisable into one Underlying Share at an exercise price of (CAD $6.90) $4.15 per share until the earlier of 60 months from October 30, 2018, and 24 months from the completion of a Going Public Transaction (Note 3 (b)), subject to adjustment and/or acceleration in certain circumstances. As at December 31, 2018, there were 168,303 Broker warrants issued at a value of $553,649 that vested upon issuance and were recorded as debt issuance costs and 143,241 advisory warrants issued at a value of $469,123 that vested upon issuance and were recorded as consulting expenses in the statement of operations.

The warrants were valued based on the fair value of services received unless the fair value of services received cannot be reliably measured, in which case the warrants are valued at fair value based on the Black-Scholes option pricing model at the date of measurement with the following assumptions:

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 10. WARRANTS (Continued)

| | 2018 |
|---|---|
| Valuation date share price | $3.29 |
| Exercise price | $3.29 |
| Expected life | 5.00 years |
| Cumulative Volatility | 75% |
| Risk free interest rate | 2.83% - 2.9% |

The risk-free interest rate was based on data from the Treasury Department's Daily Treasury Yield Curve Rates. The expected lives were based on the anticipated exercise date. The expected dividend yield was based on the rate as stated in the terms of the series A Preferred Stock. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company going public.

## 11. SHARED BASED COMPENSATION

### (a) Stock Options

The Company maintains an equity incentive plan (the "Plan") whereby certain key employees, officers, directors and consultants may be granted stock options for shares of Common Stock of FLRish.

The activity for stock options outstanding for the three months ended March 31, 2019 and year ended December 31, 2018, is summarized as follows:

| | Number of Options | Weighted Avg. Exercise Price per share |
|---|---|---|
| | # | $ |
| **Balance December 31, 2017** | **5,386,753** | **0.092** |
| Non-qualified options granted | 1,621,500 | 4.150 |
| Exercised | (2,343,750) | 0.050 |
| Expired or cancelled | (40,792) | 4.150 |
| Expired or cancelled | (146,875) | 0.050 |
| **Balance December 31, 2017** | 4,476,836 | 1.568 |
| Non-qualified options granted | - | - |
| Exercised | (25,000) | 0.050 |
| Expired or cancelled | (31,250) | 0.050 |
| **Balance December 31, 2018** | **4,420,586** | 1.568 |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 11. SHARED BASED COMPENSATION (Continued)

During the three months ended March 31, 2019 and 2018, the Company recorded aggregate share-based compensation expense of $1,045,682 and $13,875, respectively, for all stock options vesting during the year. During the three months ended March 31, 2019 and 2018, the Company received cash consideration of $1,250 and $156, respectively, for the exercise of 25,000 and 3,125 vested stock options, respectively.

The Company used the Black-Scholes valuation model to estimate the grant date fair value of the options granted during the three months ended March 31, 2019 and year ended December 31, 2018 and 2017, using the following assumptions:

| | **2019** | **2018** |
|---|---|---|
| Valuation date share price | $3.75 - $4.33 | $4.15 |
| Exercise price | $4.15 | $4.15 |
| Expected life | 3.00 - 5.75 years | 3.25 - 6.00 years |
| Cumulative Volatility | 100% | 100% |
| Risk free interest rate | 2.49% - 2.97% | 2.49% - 2.97% |

The risk-free interest rate was based on data from the Treasury Department's Daily Treasury Yield Curve Rates. The expected lives were based on the anticipated exercise date. The expected dividend yield was based on the rate as stated in the terms of the series A Preferred Stock. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company going public.

### (b) Restricted Stock Awards

On April 25, 2018, the Company granted 769,000 restricted stock awards ("RSA") pursuant to the Plan, to certain officers of the Company (the "Participants"). Each RSA provides the Participants with one share of the Company's Common Stock. Under the terms of the grants the RSA are issued to Participants and the shares issued vest over twenty-four months from the date of grant.

The fair value on the grant date of the 769,000 RSAs was $3,191,350 based on a valuation of a share of the Company's stock. During the year ended December 31, 2018, the Company recorded share-based compensation of $1,076,008 for RSAs vesting during the period.

## 12. RELATED PARTY TRANSACTIONS

Transactions with related parties are entered into in the normal course of business and are measured at the amount established and agreed to by the parties.

PMACC

During the three months ended March 31, 2019 and 2018, the Company provided contract management services to and leased land and buildings to PMACC (Notes 13). The Company and PMACC share key management personnel. For the three months ended March 31, 2018 and 2019, the Company derived the entirety of its revenue from PMACC.

At March 31, 2019 and December 31, 2018, the Company had accounts receivable balance with PMACC in the amount of $23,328,149 and $20,081,652 net of $2,065,918 allowance for credit loss. The outstanding accounts receivable balances due from PMACC are unsecured and expected to be settled with cash.

In December 2017, the Company sold its interests in a cannabis license located in San Leandro, California to PMACC. The Company recognized a gain on the sale in the amount of $2,500,000. As a result of the transaction, the Company entered into a note receivable with PMACC with a principal amount of $3,000,000 at a 2% interest rate. All principal and accrued interest totaling $3,520,064 are payable in a balloon payment due December 25, 2025. Due to the interest rate being below market, the Company recorded a discount in the amount of $2,165,814 on the note receivable based on an annual rate of 12%. The discount is amortized at a monthly rate of $22,561. At March 31, 2019, the note had principal outstanding of $2,532,307, accrued interest of $76,237, and discount of $1,822,887.

On October 29, 2018, the Company loaned $4,000,000 to PMACC by way of a promissory note bearing interest of 12%. All principal and accrued interest is payable in a balloon payment due October 29, 2019. At March 31, 2019, the note had principal outstanding of $4,000,000 and accrued interest of $207,400.

San Jose Wellness Solutions Corp.

In December 2017, the Company loaned $1,000,075 to San Jose Wellness Solutions Corp. by way of a promissory note bearing zero interest. As of December 31, 2018, the note has been paid back in its entirety.

Lineage Grow Company

On November 16, 2018, the Company issued a promissory note to Lineage Grow Company with a principal amount of $1,515,266 bearing interest at a rate of 12%. All principal and accrued interest is payable in a balloon payment due November 19, 2019. At March 31, 2019, the note had principal outstanding of $1,515,266 and accrued interest of $83,927.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 13. RENTAL REVENUE – RELATED PARTY

The Company leases cultivation facilities, buildings, and improvements to PMACC (Note 12). The lease agreement commenced on September 15, 2016, with a six-year term subject to an automatic five-year extension. PMACC may opt out of the automatic extension by providing notice at least three months, but no earlier than six months, prior to the expiration of the initial term. The lease calls for monthly rent amounts ranging from $185,895 to $801,550 as additional rentable square foot is delivered.

For the three months ended March 31, 2019, total rental revenue was $1,099,319. Future minimum rental payments due under the leases are as follows:

| Year Ending December 31 | Amount (Unaudited) |
|---|---|
| 2019 (Nine Months) | $ 7,664,791 |
| 2020 | 9,288,449 |
| 2021 | 9,501,142 |
| 2022 | 4,007,745 |
| | $ 30,462,127 |

## 14. SALE-LEASEBACK

On July 14, 2017, the Company entered into a sale-leaseback transaction with CFP for a cultivation property located in Salinas, California (the "Farm"). The total sale price for the Farm was $9,080,000. In addition to the property, the sale included all furniture, fixtures, and equipment attached to the property.

The gain from the sale is recognized over the life of the lease. As of March 31, 2019 and December 31, 2017, the deferred gain balance was $282,725 and $292,363, respectively.

## 15. CONCENTRATIONS AND RISKS

### (a) Market

The Company operations are currently limited to providing services to cannabis operations in Northern California. Any changes in the applicable rules governing the cultivation, manufacturing, distributing, or sale of cannabis, in California or the local jurisdictions in which the Company provides services could negatively impact the Company's operations.

## 15. CONCENTRATIONS AND RISKS (Continued)

### (b) Customers

For the three months ended March 31, 2019 and 2018, the Company derived all contract and rental revenue from one customer, PMACC, a related-party (Note 13). Any changes in the applicable rules governing the cultivation, manufacturing, distributing, or sale of cannabis, in California or the local jurisdictions in which the customer provides services could negatively impact the Company's operations.

### (c) California Operating Licenses

Effective January 1, 2018, the State of California allowed for adult use cannabis sales. Beginning on January 1, 2018, the State began issuing temporary licenses that expired 120 days after issuance for retail distribution and cultivation permits. The cannabis operations served by the Company submitted their applications for the annual licenses in April 2018 and were operating under active temporary licenses until April 2019, when they received their provisional licenses.

Additional regulations relating to testing cannabis products came into effect on July 1, 2018, which required the Company's clients to sell products that would be non-compliant prior to that date. Due to the additional testing requirements effective July 1, 2018, the California market and the Company's clients experienced a shortage in supply of compliant products during the first two weeks of July 2018. The supply chain for the Company's clients have stabilized subsequently.

Although the possession, cultivation and distribution of marijuana for medical and adult use is permitted in California, marijuana is a Schedule-I controlled substance under the Controlled Substances Act and its use remains a violation of federal law. Since federal law criminalizing the use of marijuana preempts state laws that legalize its use, strict enforcement of federal law regarding marijuana would likely result in our inability to proceed with our business plan, especially in respect to managing our clients' marijuana cultivation, production and dispensaries. In addition, our assets, including real estate property, cash, equipment and other goods, could be subject to asset forfeiture because marijuana is still federally illegal. While management of the Company believes that the Company is in compliance with applicable local and state regulation as at March 31, 2019, medical and adult use 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.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 16. COMMITMENTS AND CONTINGENCIES

### (a) Legal Claims

The Company may, from time to time, be subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. Contingent liabilities associated with legal proceedings are recorded when a liability is probable, and the contingent liability amount can be reasonably estimated.

In May 2018, a former CEO of the Company issued a demand for arbitration to the Company. The Company has asserted its own claims against the former employee. As a result of the claims against the former employee and his continuing inability to provide documentation, the Company believes it will be successful in defending the former employee's claims in arbitration.

In August 2018, an employee asserted claims against the Company. In October 2018, the parties have agreed to settle the matter for $300,000 to be paid on a payment schedule ending December 2019. At March 31, 2018, $179,000 remained unpaid and was included in Accounts Payable and Accrued Expenses.

### (b) Leases

The Company leases its cultivation facilities under an escalating lease commencing in July 2017 and expiring in July 2026. For the three months ended March 31, 2019 and 2018, rent expense totaled $226,150 and $226,150, respectively. At March 31, 2019 and December 31, 2018, the Company recorded a deferred rent liability in the amount of $152,000 and $129,200, respectively to adjust the lease obligation to straight-line amortization. The deferred rent is classified as a long-term liability as the deferral will be reversed in periods beyond 2018.

Future minimum rental payments due from the Company under the lease agreement are as follows:

| Year Ending December 31 | Amount (Unaudited) |
|---|---|
| 2019 (nine months) | $ 612,900 |
| 2020 | 855,035 |
| 2021 | 908,004 |
| 2022 | 908,004 |
| 2023 | 946,334 |
| Future periods | 2,583,323 |
| | $ 6,813,600 |

## 16. COMMITMENTS AND CONTINGENCIES (Continued)

### (c) Employment Agreements

Certain of the Company's employees have employment agreements under which the Company is obligated to make severance payments, accelerate vesting of stock options and provide other benefits in the event of the employee's termination, change in role or a change in control as defined in such agreements.

On January 8, 2019, Shareholder 2 received a severance package of $600,000 to be paid over twenty-four months.

### (d) TSE Agreement

TSE Consulting, LLC ("TSE") provides cultivation management services to the Company as a contractor pursuant to the cultivation consulting agreement executed on February 24, 2018, between TSE and Savature. TSE is paid a base rate of $100,000 per month, which covers employment of onsite staff by TSE as well as performance based compensation varying from 2.5% to 3.75% of wholesale gross revenue and potential compensation for genetics developed by TSE. The agreement terminates on June 30, 2020.

### (e) FMI Agreements

On February 28, 2018, FMI Capital Advisory, Inc. ("FMICA"), a Canadian investment banking group, and FLRish executed a consulting agreement whereby FMICA would provide merger and capital raising consulting services to the Company. FMICA is compensated by means of a monthly fee in the amount of CAD $15,000 and a success fee for either an M&A transaction or an acquisition ranging from 2 to 4% of the transaction value.

On December 3, 2018, FMICA and FLRish entered into an advisory agreement whereby FMICA would provide additional consulting services to FLRish in addition to those contemplated under the consulting agreement dated February 28, 2018. In consideration of the additional services provided by FMICA pursuant to the agreement, FMICA is entitled to cash fees equal to an aggregate of $732,970 (CAD $1,000,000) and 143,241 advisory warrants (Note 10). At March 31, 2019, the Company had paid cash fees of $705,309 and issued the advisory warrants.

## 17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash, accounts receivable, notes receivables, deposits, accounts payable and accrued liabilities, convertible debentures, warrant liability, note payables and accrued interest.

## 17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

### (a) Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable, and accrued liabilities approximate their fair values because of the short-term maturities of these financial instruments. The following classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – Inputs for the asset or liability that are not based on observable market data.

| | Category | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| March 31, 2019 | | $ | $ | $ | $ |
| **Financial Liabilities** | | | | | |
| Convertible Debentures | FVTPL | - | - | 20,011,803 | 20,011,803 |
| Derivative Liabilities | FVTPL | - | - | 27,894,888 | 27,894,888 |

The Company's finance team performs valuations of financial items for financial reporting, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

The conversion feature in the Series B Debenture, the warrants issued in the Series B Debenture Unit and the conversion feature in the Series A Preferred Stock were valued using a Monte Carlo simulation model to estimate their value as of the date of issuance and as of March 31, 2019. The most significant assumption used in these valuations was the expected volatility of the Company's shares.

### (b) Risk Management

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

### (c) Market Risk

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

## 17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

### (d) Asset Forfeiture Risk

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

### (e) Banking Risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry.

Consequently, businesses involved in the marijuana industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the clients and leaves their cash holdings vulnerable.

### (f) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not subject to any interest rate volatility as its notes payable and convertible notes are carried at a fixed interest rate throughout their term. The Company considers interest rate risk to be immaterial.

### (g) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable and promissory notes receivable.

At March 31, 2019 and December 31, 2018, the carrying amount of cash was $11,511,191 and $14,762,661, respectively, accounts receivable was $23,328,149 and $20,081,652, respectively, and notes receivable was $6,625,259 and $6,496,786, respectively, represent the maximum exposure to credit risk.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

### (h) Credit Risk (Continued)

The Company's credit risk is primarily attributable to its accounts receivables and notes receivable. The amounts disclosed in the consolidated statements of financial position are net of allowance for doubtful accounts, estimated by the management of the Company based on its assessment of the current economic environment.

The Company has significant exposure to a single customer, PMACC (Note 12). In order to determine the allowance for credit losses, the Company conducts an analysis of the customer and its customary pay practices and the terms of the contract under which the obligation arose. Based on the review the Company recorded a provision for credit losses of $2,065,918 and $$2,065,918 at March 31, 2019 and December 31, 2018, respectively.

As of March 31, 2019, and December 31, 2018, the Company's aging of the gross value of its accounts receivable was as follows:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| 0 - 60 days | $ 5,712,284 | $ 4,024,633 |
| 61+ days | 19,681,783 | 18,122,937 |
| | **$ 25,394,067** | **$22,147,570** |

### (i) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. At March 31, 2019 and December 31, 2018, the Company had cash of $11,511,191 $14,762,661, respectively, and working capital of $28,113,183 and $27,352,945, respectively. Based on the Company's ability to complete equity cash raises, management regards liquidity risk to be low.

In addition to the commitments outlined in Note 15, the Company has the following contractual obligations:

| | Total | < 1 year | 1 - 3 years | 3 - 5 years | > 5 years |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 6,083,216 | $ 6,083,216 | $ - | $ - | $ - |
| Notes payable and accrued interest | 980,774 | $ 980,774 | - | - | - |
| Convertible debentures | 20,011,803 | - | 20,011,803 | - | - |
| Derivative liabilities | 27,894,888 | - | 27,894,888 | - | - |
| | **$54,970,681** | **$ 7,063,990** | **$47,906,691** | **$ -** | **$ -** |

## 17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

### (j) Foreign Exchange Risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currencies. The Company has financial assets and liabilities denominated in Canadian dollars. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

The following is an analysis of the U.S. dollar equivalent of financial assets and liabilities that are denominated in Canadian dollars at March 31, 2019:

| | |
|---|---|
| **Financial Assets** | |
| Cash | $ 1,958,343 |
| | $ 1,958,343 |
| **Financial Liabilities** | |
| Convertible Debentures | $ 20,011,803 |
| Derivative Liabilities | 27,894,888 |
| | $ 47,906,691 |

## 18. CAPITAL MANAGEMENT

The Company considers its capital structure to include contributed capital, convertible debentures, warrants liability, accumulated deficit, non-controlling interests and any other component of shareholders' equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new units, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach during the three months ended March 31, 2019 and the year ended December 31, 2018.

## 19. SUBSEQUENT EVENTS

Subsequent events were evaluated through the date of the audit report, which is the date the consolidated financial statements were available to be issued.

### (a) Acquisition of Airfield Supply Company

On April 23, 2019, RMCO entered into a definitive stock purchase agreement with Airfield Supply Company ("Airfield") and its owner pursuant to which, among other things, the Company would acquire 100% of the outstanding capital stock of Airfield for purchase price that is based on the following formula: an average of (x) 1.3x Airfield's revenue and (y) 7x Airfield's EBITDA, in each case of the period commencing April 1, 2018 through March 1, 2019. The closing of the transaction is conditional, among other things, on approval of the transaction by the Company's Board of Directors and stockholders, as well as the raising of $60 million on terms determined appropriate by the Company.

### (b) Common Stock Amendment

On May 15, 2019, the common shareholders of FLRish agreed to amend the articles of incorporation of FLRish in order to make the following changes to the various classes of FLRish shares. The amended and restated articles of FLRish approved by the shareholders of FLRish included the designation of four classes of common stock: Series A Common Stock, Series B Common Stock, Series C Common Stock and Series D Common Stock. The amended articles designate, of the 91,000,000 authorized shares, 11,000,000 shares of Series A Common Stock, 35,000,000 shares of Series B Common Stock and 15,000,000 shares of Series C Common Stock and 30,000,000 shares of Series D Common Stock.

### (c) Subscription Receipt Financing

On May 17, 2019, pursuant to an agency agreement (the "**SR Agency Agreement**") among FLRish, AltaCorp Capital Inc. ("**AltaCorp**") and Foundation Markets Inc. (together with AltaCorp, the "**Co-Lead Agents**") on behalf of a syndicate of agents (together with the Co-Lead Agents, the "**Agents**"), FLRish completed a brokered private placement offering (the "**Brokered Concurrent Offering**") of 2,508,434 subscription receipts (each, a "**Subscription Receipt**") at a price of C$7.00 (US$5.26) per Subscription Receipt (the "**Concurrent Offering Price**") for gross proceeds of C$17,559,038 (US$13,202,284). In addition, FLRish completed a concurrent non-brokered offering of 298,547 Subscription Receipts for gross proceeds of C$2,089,829 (US$1,571,300) on the same terms as the Offering (the "**Non-Brokered Concurrent Offering**", together with the Brokered Concurrent Offering the "**Concurrent Offering**"). The aggregate gross proceeds of the Brokered Concurrent Offering and the Non-Brokered Concurrent Offering were approximately C$19,648,867 (US$14,773,584).

The Subscription Receipts were governed by the terms of a Subscription Receipt Agreement dated May 17, 2019 among the Co-Lead Agents, FLRish and OTC, as Subscription Receipt Agent. Each Subscription Receipt automatically converted into one share of FLRish Series D Common Stock (each, an "**SR Share**") and one FLRish warrant (each whole warrant, an "**SR Warrant**") immediately prior to and in connection with the completion of the Transaction, without payment of any additional consideration and with no further action on the part of the holder. The SR Warrants are governed by the terms of a warrant indenture dated May 17, 2019 among the Co-Lead Agents, FLRish, Lineage and Odyssey, as warrant agent. Each SR Warrant issued on conversion of the Subscription Receipts entitles the holder thereof to purchase one SR Share at an exercise price of C$8.75 (US$6.58) per share until May 17, 2021, subject to adjustment in certain circumstances. On closing of the Transaction, each SR Share and each SR Warrant issued on conversion of the Subscription Receipts was immediately exchanged for equivalent securities of the Resulting Issuer, being one Subordinate Voting Share and one warrant to purchase one Subordinate Voting Share. Following completion of the Transaction, in the event that the volume weighted average trading price of the Subordinate Voting Shares on the Canadian Securities Exchange for 10 consecutive trading days exceeds C$13.15 (US$9.89), the Resulting Issuer has the right to accelerate the expiration date of the SR Warrants upon not less than 15 trading days' prior written notice.

In connection with the Brokered Concurrent Offering and subject to certain exceptions, the Agents received an aggregate cash fee (the "**Offering Fee**") equal to 7% of the gross proceeds of the Brokered Concurrent Offering and such number of broker warrants (the "**SR Broker Warrants**") as is equal to 7% of the number of Subscription Receipts issued pursuant to the Brokered Concurrent Offering. Each SR Broker Warrant is exercisable to purchase one SR Share at the Concurrent Offering Price until May 17, 2021. On closing of the Transaction, each SR Broker Warrant immediately became exercisable for securities of the Resulting Issuer on equivalent terms.

In addition, FLRish paid the Agents a one-time financial advisory fee in the amount of C$105,171 (US$79,076). A total of C$18,539,627.24 (US$13,939,569), being the gross proceeds of the Concurrent Offering, less 50% of the Offering Fee and all of the Co-Lead Agents' expenses, were deposited with and held by the Subscription Receipt Agent in an interest-bearing account (the "**Escrowed Funds**"), to be released upon satisfaction or waiver of the certain escrow release conditions (the "**Escrow Release Conditions**").

On May 30, 2019, the Escrowed Funds were released by the Subscription Receipt Agent as follows: (a) C$638,892.08 (US$480,370) to the Agents, being an amount equal to the remaining 50% of the Offering Fee and expenses of the Concurrent Offering (plus any pro rata portion of accrued interest earned thereon), and (b) C$17,906,228.43 ($13,463,330), being an amount equal to the balance of the Escrowed Funds.

**(d) Completion of Reverse Takeover**

On May 30, 2019, FLRish completed its reverse takeover transaction with Lineage pursuant to the terms of the Merger Agreement among FLRish, Lineage and Merger Sub. The Reverse Takeover was completed by way of a "three-cornered merger" whereby FLRish merged with Merger Sub to form a merged corporation and a wholly-owned subsidiary of Lineage. Immediately prior to the Transaction taking effect, Lineage (a) consolidated its common shares on the basis of approximately 41.82 common shares into one new common share (the "**Consolidation**"), (b) changed its name to Harborside Inc., (c) reclassified the post-Consolidation common shares as

Subordinate Voting Shares, and (d) created a new class of Multiple Voting Shares. On closing, the holders of shares of FLRish received Multiple Voting Shares, Subordinate Voting Shares or a combination thereof, for each share of FLRish outstanding immediately prior to completion of the Transaction.