

FLRISH, INC.

AMENDED AND RESTATED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(EXPRESSED IN UNITED STATES DOLLARS)

FLRISH, INC.
Notice to Reader

Please be advised that the following changes were made to the annual financial statements related to the accounting treatment for the years ended December 31, 2018 and 2017:

- Sale and subsequent lease of the Company's cultivation property located in Salinas, California;
- Classification of shares of Series-A1 preferred stock;
- Series B convertible debentures broker warrant and advisory warrant valuation methodology;
- Share-based compensation;
- Loss on extinguishment for term loan;
- Note Receivable debt discount;
- Provision for income taxes; and
- Other adjustments

The impact of the restatement on the annual financial statements was primarily non-operating in nature and relates solely to accounting changes made to previously disclosed transactions. The cumulative impact on the financial statements is further described in Note 2.

August 10, 2020

FLRISH, INC.
Management's Responsibility for Financial Reporting

To the Board of Directors and Shareholders of FLRish, Inc.:

The accompanying amended and restated financial statements in this annual report were prepared by management of FLRish, Inc. ("FLRish" or the "Company"), and were reviewed and approved by the Board of Directors of FLRish.

Management is responsible for the amended and restated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's amended and restated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

These amended and restated financial statements have been audited by the Company's auditor, Macias Gini & O'Connell, LLP, and their report is presented herein.

Peter Bilodeau
Chief Executive Officer

Tom DiGiovanni
Chief Financial Officer

August 10, 2020



Independent Auditor's Report

To the Board of Directors and Shareholders of
FLRish, Inc. and Subsidiaries
Oakland, California

Opinion

We have audited the consolidated financial statements of FLRish, Inc. and Subsidiaries (the "Company"), which comprise the amended and restated consolidated statements of financial position as of December 31, 2018 and 2017, and the related amended and restated consolidated statements of operations, changes in shareholders' equity (deficit), and cash flows for the years then ended, and notes to the amended and restated consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2 to the amended and restated consolidated financial statements, which explains that certain comparative information presented for the years ended December 31, 2018 and 2017 have been restated. Note 2 explains the reasons for the restatement and also explains the adjustments that were applied to restate certain comparative information. Our opinion is not modified in respect of this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Macias Gini & O'Connell LLP

San Francisco, California
August 10, 2020

FLRISH, INC.**Amended and Restated - Consolidated Statements of Financial Position****For the Years Ended December 31, 2018 and 2017***(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

	As Restated (Note 2)	
	2018	2017
Assets		
Current Assets		
Cash	\$ 14,762,661	\$ 1,490,612
Accounts Receivable - Related Party, net	Note 15 22,147,570	9,641,424
Prepaid Expenses	69,584	150,319
Total Current Assets	36,979,815	11,282,355
Non-Current Assets		
Property and Equipment, Net	Note 6 17,236,331	15,600,232
Notes Receivable - Related Party, Net	Note 15 7,046,346	2,479,227
Deposits	277,130	326,366
Total Non-Current Assets	24,559,807	18,405,825
Total Assets	\$ 61,539,622	\$ 29,688,180
Liabilities and Shareholders' Equity (Deficit)		
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities	Note 7 \$ 4,980,133	\$ 4,434,041
Notes Payable and Accrued Interest, Current Portion	Note 8 1,780,000	11,012,896
Notes Payable and Accrued Interest - Related Party	Note 8 -	1,700,000
Income Tax Payable	Note 14 147,742	6,400
Total Current Liabilities	6,907,875	17,153,337
Long Term Liabilities		
Notes Payable and Accrued Interest, Net of Current Portion	Note 8 9,709,474	13,157,446
Series A Preferred Liability	Note 22j 28,359,357	-
Derivative Liability	Note 10 15,046,628	2,422,796
Deferred Rent	-	(401)
Convertible Debentures	Note 9 16,036,285	-
Total Long Term Liabilities	69,151,744	15,579,841
Total Liabilities	76,059,619	32,733,178
Shareholders' Equity (Deficit)		
Share Capital	Note 11 9,608,048	100,949
Contributed Surplus	Note 13 6,091,639	231,989
Warrants	Note 12 632,728	-
Accumulated Deficit	(30,852,412)	(12,517,440)
Non-Controlling Interest	Note 11 -	9,139,504
Total Shareholders' Equity (Deficit)	(14,519,997)	(3,044,998)
Total Liabilities and Shareholders' Equity (Deficit)	\$ 61,539,622	\$ 29,688,180

Approved on behalf of the Board of Directors:*"Peter Bilodeau" (signed)*

Director

"Tom DiGiovanni" (signed)

Chief Financial Officer

FLRISH, INC.**Amended and Restated - Consolidated Statements of Operations****For the Years Ended December 31, 2018 and 2017***(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

		As Restated (Note 2)	
		2018	2017
Services Revenue - Related Party	Note 17	\$ 16,935,545	\$ 12,595,188
Rental Revenue - Related Party	Note 16	4,397,275	2,086,822
Total Revenue		21,332,820	14,682,010
Cost of Revenue		7,896,391	4,124,561
Gross Profit		13,436,429	10,557,449
Expenses			
General and Administrative	Note 19	8,521,598	8,249,415
Professional Fees		5,094,402	2,601,127
Share-Based Compensation	Note 13	5,859,650	94,239
Impairment Loss	Note 18	-	3,637,574
Depreciation and Amortization	Note 6	1,176,190	477,710
Total Operating Expenses		20,651,840	15,060,065
Loss from Operations		(7,215,411)	(4,502,616)
Other Income (Expense)			
Interest Expense, Net		(3,413,229)	(2,613,122)
Gain on Sale of Investment	Note 15	-	919,641
Gain on Sale of Equipment		15,509	57,599
Foreign Exchange Gain		684,589	-
Fair Value Adjustment	Note 22(j)	(2,415,913)	-
Loss on Debt Extinguishment	Note 2,8	(4,325,861)	-
Change in Fair Value of Derivative Liability	Note 10	(434,417)	(620,143)
Other Expenses		(328,514)	(360,993)
Provision for Tax Penalties		(4,747)	-
Total Other Income (Expense)		(10,222,583)	(2,617,018)
Loss Before Provision for Income Taxes		(17,437,994)	(7,119,634)
Provision for Income Taxes	Note 14	142,742	10,400
Net Loss Before Non-Controlling Interest		(17,580,736)	(7,130,034)
Net Loss Attributable to Non-Controlling Interest	Note 11	-	(11,540)
Net Loss Attributable to FLRish, Inc.		\$ (17,580,736)	\$ (7,118,494)

FLRISH, INC.**Amended and Restated - Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017***(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

	Restated 2018	Restated 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss before non-controlling interest	\$ (17,580,736)	(7,130,034)
Adjustments to Reconcile Net Loss to Net Cash Used In Operating Activities:		
Depreciation and Amortization	1,176,190	477,710
Accreted Interest	1,204,803	1,015,391
Amortization of Note Receivable Discount - Related Party	(234,837)	(4,512)
Amortization of Debt Issuance Costs	270,000	-
Impairment of Property and Equipment	240,000	-
Change in Fair Value of Derivative Liability	434,417	620,143
Loss on Debt Extinguishment	4,325,861	-
Share Based Compensation	5,859,650	94,239
Warrants Issued for Services	282,668	-
Deferred Rent	-	(401)
Impairment Loss	-	3,637,574
Gain on Sale of Equipment	-	-
Gain on Sale of Investment	-	(919,641)
Foreign Exchange Gain	(684,589)	-
Fair value adjustment	2,415,913	-
Changes in Operating Assets and Liabilities:		
Accounts Receivable - Related Party	(12,999,886)	(7,069,779)
Prepaid Expenses	80,735	(129,519)
Deposits	49,236	(272,672)
Accounts Payable and Accrued Liabilities	3,058,970	575,561
Accounts Payable - Related Party	-	(538,259)
Accrued Interest	763,254	936,656
Income tax payable	141,342	6,400
NET CASH USED IN OPERATING ACTIVITIES	(11,197,009)	(8,701,143)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(5,564,774)	(7,907,403)
Advances on Notes Receivable - Related Party	(5,515,266)	(55,000)
Payments Received on Notes Receivable - Related Party	1,182,987	90,132
Purchase of Investments	-	(555,188)
NET CASH USED IN INVESTING ACTIVITIES	(9,897,053)	(8,427,459)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Convertible Debentures, Net of Loan Fees	25,693,490	850,000
Proceeds from Notes Payable, Net of Loan Fees	5,167,500	15,942,500
Proceeds from Notes Payable - Related Party	-	1,000,000
Payments on Notes Payable - Related Party	(1,694,097)	(3,008,533)
Proceeds from Exercise of Stock Options	99,218	100,899
Proceeds from Series A Preferred Stock Offering	5,500,000	-
Distribution to Non-Controlling Interest	(400,000)	(600,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	34,366,111	14,284,866
INCREASE (DECREASE) IN CASH	13,272,049	(2,843,736)
CASH, BEGINNING OF PERIOD	1,490,612	4,334,348
CASH, END OF YEAR	\$ 14,762,661	\$ 1,490,612

FLRISH, INC.**Amended and Restated - Consolidated Statements of Cash Flows****For the Years Ended December 31, 2018 and 2017***(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

	Restated 2018	Restated 2017
Supplementary information:		
Interest Paid	\$ 2,139,394	\$ 665,652
Income Taxes Paid	\$ 39,089	\$ 13,600
Non-Cash Investing and Financing Activities		
Property and Equipment Acquired Through Accrual	\$ -	\$ 2,512,484
Cumulative Impact of Adoption of IFRS 9	\$ 493,740	\$ -
Purchase of Non-controlling Interest by Issuance of Series B Common Stock	\$ 9,000,000	\$ -
Series A Preferred Issued Upon Conversion of Derivative Liability	\$ 3,663,483	\$ -
Conversion of Notes Payable and Accrued Interest to Series A Preferred Stock	\$ 12,304,398	\$ -
Fair Value of Derivative Liability Upon Issuance	\$ 15,852,898	\$ -
Shares issued for Interest Payable	\$ 407,881	\$ -
Issuance of Broker Warrants as Debt Discount	\$ 350,059	\$ -
Exchange of Term Loan for Series B Units	\$ 6,433,420	\$ -
Investment in Cannabis License sold for Note Receivable- Related Party	\$ -	\$ 1,419,639

FLRISH, INC.**Amended and Restated - Consolidated Statements of Changes in Shareholders' Equity
(Deficit)****For the Years Ended December 31, 2018 and 2017***(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

		Share Capital	Contributed Surplus	Warrants	Accumulated Deficit	Non- Controlling Interest	Total
Balance, January 1, 2017		\$ 50	\$ 137,750	\$ -	\$ (5,398,946)	\$ 9,751,044	\$ 4,489,898
Exercise of stock options	Note 13(a)	100,899	-	-	-	-	100,899
Distribution to non-controlling interest		-	-	-	-	(600,000)	(600,000)
Share-based compensation	Note 13(a)	-	94,239	-	-	-	94,239
Net loss for the year		-	-	-	(7,118,494)	(11,540)	(7,130,034)
Balance, December 31, 2017		100,949	231,989	-	(12,517,440)	9,139,504	(3,044,998)
Balance, January 1, 2018		\$ 100,949	\$ 231,989	\$ -	\$ (12,517,440)	\$ 9,139,504	\$ (3,044,998)
Adjustment related to the adoption of IFRS 9 - credit loss reserve	Note 4(h)(iii)	-	-	-	(493,740)	-	(493,740)
Exercise of stock options	Note 13(a)	99,218	-	-	-	-	99,218
Share-based compensation	Note 13(a)	-	5,859,650	-	-	-	5,859,650
Issuance of shares as settlement for interest payable	Note 11(c)	407,881	-	-	-	-	407,881
Purchase of non-controlling interest by issuance of series B common stock	Note 11(d)	9,000,000	-	-	(260,496)	(8,739,504)	-
Issuance of broker and advisory warrants	Note 12	-	-	632,728	-	-	632,728
Distribution to non-controlling interest		-	-	-	-	(400,000)	(400,000)
Net loss for the year		-	-	-	(17,580,736)	-	(17,580,736)
Balance, December 31, 2018		\$ 9,608,048	\$ 6,091,639	\$ 632,728	\$ (30,852,412)	\$ -	\$ (14,519,997)

FLRISH, INC.

Notes to Amended and Restated Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

1. NATURE OF OPERATIONS

FLRish, Inc. (“FLRish” or the “Company”), 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, provides 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 cannabis 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 202, Oakland, California, United States of America.

2. RESTATEMENT

The restatement of the Company’s 2018 and 2017 financial statements, and all related disclosures followed a review of the Company’s consolidated financial statements and accounting records that was undertaken as part of the audit of the consolidated financial statements for the year ended December 31, 2019. That review resulted in revisions to accounting treatments related to certain complex accounting transactions, including the reclassification and re-measurement of certain financial instruments.

The impact of the restatement on the annual financial statements was primarily non-operating in nature and relates solely to accounting changes made to previously disclosed transactions.

The accompanying amended and restated consolidated financial statements reflect the following accounting adjustments:

(1) Financing Arrangement (Sale-Leaseback Transaction)

On July 14, 2017, the Company entered a sale and concurrent lease transaction with CFP RE Fund I, LLC (“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 Company previously classified a lease agreement it entered into with CFP relating to the property and equipment located at the Farm (the “Lease”), subsequent to the sale of the Farm, as an operating lease with a term of 108 months expiring on July 18, 2026 and recorded a deferred gain of \$346,982 to be recognized over the course of the lease related to the sale of the Farm.

As part of the audit of the consolidated financial statements for the year ended December 31, 2019, the Company performed additional analysis of the sale and the lease agreements relating to the Farm. Based on such analysis of the requirements of International Accounting Standards (“IAS”) 17, *Leases*, Standard Interpretations Committee (“SIC”) 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*, and IAS 18, *Revenue*, the Company subsequently determined that it was more appropriate to not record the transaction as a sale-

FLRISH, INC.

Notes to Amended and Restated Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

leaseback. This conclusion was based on the review of the terms included in the agreements related to certain risk of loss provisions which in the Company's assessment preclude the recognition of a sale. These provisions included certain call and put options that granted or allowed the Company to repurchase and/or the buyer to sell back the Farm. Accordingly, for accounting purposes the agreements were determined to be a financing arrangement between the Company and CFP.

The revised accounting position required certain adjustments to restate the Company's previously reported consolidated financial statements as at and for the years ended December 31, 2018 and 2017 and all related disclosures. The impact of these modifications is as follows:

- i. Property and Equipment, Net increased by approximately \$8.0 million and \$8.5 million at December 31, 2018 and 2017, respectively. The Company also recorded additional depreciation expense of \$505,392 and \$227,427 for the years ended December 31, 2018 and 2017, respectively.
- ii. The total deferred gains on the sale of equipment in current liabilities of \$38,553 and \$38,553 were removed at December 31, 2018 and 2017, respectively. Deferred gains on the sale of equipment in long-term liabilities of \$253,810 and \$292,364 were removed at December 31, 2018 and 2017, respectively. The related gains on sale of equipment also decreased by \$38,554 and \$16,065 for the years ended December 31, 2018 and 2017, respectively.
- iii. A long-term liability of approximately \$9.1 million with an effective interest rate of 13.3% was recorded when the Lease was entered into, resulting in an increase in interest expense of \$1.3 million and \$604,710 for the years ended December 31, 2018 and 2017, respectively. The Company has increased accrued interest of \$629,474 and \$196,110 as of December 31, 2018 and 2017, respectively, related to this loan.
- iv. General and administrative expenses were adjusted to decrease rent expense to remove payments to the long-term liability noted above by \$908,000 and \$447,000 for the years ended December 31, 2018 and 2017, respectively. Related deferred rent was also removed from the Company's financial statement of position of \$129,200 and \$38,401 as of December 31, 2018 and 2017, respectively.

(2) Senior and Junior Convertible Notes, Series-A - Preferred Stock previously classified as Equity, and Series-A Conversion Feature Derivative Liability

During the years ended December 31, 2016 and 2015, the Company issued convertible promissory notes bearing 8% interest with a principal face value in the aggregate of \$6,000,000 in exchange for \$6,000,000 in cash (the "Senior Notes"). Refer to Note 8 for additional information related to these notes.

During the years ended December 31, 2017 and 2016, the Company issued convertible promissory notes bearing 12% interest with a principal face value in aggregate of \$3,660,000 in exchange for \$3,660,000 in cash (the "Junior Notes"). Refer to Note 8 for additional information related to these notes.

FLRISH, INC.

Notes to Amended and Restated Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

In addition to the Senior Notes and Junior Notes outlined above, the Company had a promissory note with a face value of \$1,000,000 bearing interest at an annual rate of 12% to Murray Field & Company, LLC (a related party), maturing on March 1, 2018 (the “Murray Field Note”). The Junior Note, Senior Note, and Murray Field Note are collectively referenced as “the Notes”.

The Company completed an offering (the “Series A Offering”) of \$5,500,000 worth of shares of Series A-1 preferred stock (the “Series A-1 Shares”) on April 30, 2018. The principal and accrued interest of the Notes referenced above totaling \$12,304,398 were converted into 4,924,701 Series A-1 Shares. No principal or interest payments were made prior to conversion.

The Series A-1 Shares is a class of voting preferred stock that was issued in the FLRish Series A Offering and upon conversion of the Notes. 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 the greater to \$5.20 per share plus accrued dividends or the Fair Market Value as of the unqualified merger or sale or on the redemption date. 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 Shares are convertible into additional shares of series B common stock (the “Series B Common Shares”) in an amount equal to the percentage obtained by dividing the accrued dividend on such shares by the original Series A-1 Share issue price. Series A-1 Shares are convertible at the option of the holders at any time into Series B Common Shares at a conversion price of \$4.15 per share.

The Notes included certain contingent conversion features that required separation from the debt instrument and was accounted for separately under International Accounting Standards (“IAS”) 32, *Financial Instruments* for 2017 and International Financial Reporting Standards (“IFRS”) 9, *Financial Instruments* for 2018. Upon issuance, the entire value had been allocated to the host instrument (i.e. the convertible notes) even though there existed the probability of the Company raising funds through a qualified equity financing in both 2017 and 2018. This required the Company to fair value the conversion feature and reduce such value from the value of the host instrument through the recording of a debt discount. The Company has since adjusted the conversion feature of the Notes based on probabilities of the occurrence of a qualified equity financing in both 2017 and 2018.

Additionally, when the Company converted the Notes, the Company did not record a loss on settlement and conversion into Series A-1 Shares.

In its previously issued financial statements for the year ended December 31, 2018, the Company had bifurcated the conversion feature of the Series A-1 Shares as a derivative liability and reduced the fair value of such conversion feature on the date of issuance from the net proceeds (i.e. total proceeds less transaction costs attributable to the conversion feature). The net proceeds less the bifurcated amount, and the related accrued dividends had been classified as equity in the Statement of Shareholders Equity as of December 31, 2018. Upon further review of the Series A Preferred Stock Purchase Agreement (the “Preferred Stock Agreement”), it was determined that it was more appropriate for the Company to classify the Series A-1 Shares as a liability instrument.

FLRISH, INC.

Notes to Amended and Restated Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

The Series A-1 Shares are a compound financial instrument, containing a derivative liability for the conversion option, redemption option and rights on liquidation, and dividend rights with the remainder of the instrument being an equity instrument representing the holder's voting rights. The Company initially considered fixed-for-fixed criteria for initial classification and measurement, which would classify the instrument into equity. However, upon further review, certain features did not result in fixed-for-fixed criteria being met, including mandatory redemption rights that could be settled for cash or other assets of the Company; thus, it was determined that it was more appropriate for the Company to classify this instrument as a liability. The Company has elected to designate the entire instrument as a financial liability measured at fair value through profit or loss from the initial recognition date.

The impact of these adjustments is as follows:

- i. Interest Expense, net increased \$740,546 during the year ended December 31, 2017 from the additional accretion for the discount of the Notes due to segregating the debt and the fair value of the conversion features of the embedded derivative for the initial recognition and accretion of interest for the discount on the debt.
- ii. Derivative liabilities and Change in Fair Value of Derivative Liabilities increased by \$2,422,796 and \$620,143, respectively, as of December 31, 2017 to record the fair value of the embedded derivative for the conversion feature. The increase represents the change in derivative value after an adjustment to the opening balance sheet of \$1,802,653 to record the fair value of the conversion feature derivative liability as of December 31, 2016. The opening balance sheet Accumulated Deficit account was also adjusted by the corresponding amount. Prior to conversion on April 30, 2018, the derivative liability was fair valued as of such date that resulted in increasing the fair value by \$730,415 that was recognized in the statement of operations for the year ended December 31, 2018.
- iii. In April 2018, the carrying value of the Notes, in the amount of \$12,304,398, plus the fair value of the conversion feature as of the conversion date in the amount of \$3,663,482, were converted into Series A Preferred Stock with a fair value of \$20,443,445, resulting in a Loss on Extinguishment of \$4,475,565, which was previously not recorded.
- iv. The reclassification of the Series A-1 Shares from equity to liabilities resulted in an increase of \$17,804,398 in the long-term liabilities and a corresponding decrease in shareholders' equity. Accrued dividends of \$973,008 were eliminated as a result of adopting fair value through profit and loss ("FVTPL") measurement and adjusting the previously recorded accrual included in equity.
- v. The Series A-1 Shares also have features providing for converting to Series B Common Shares. The change in fair value of these embedded derivatives was also previously recorded in the derivative liability. Clauses included in the Preferred Share Agreement provide investors with redemption features based on fair value of the shares at the time of conversion. The Company determined it was more appropriate to measure the entire instrument including the derivative component of the Series A-1 Share liability based on FVTPL. These adjustments resulted in a \$12,773,435 reduction in the derivative liability and equity as of the conversion date.
- vi. The FVTPL measurement resulted in additional adjustments to record the changes in fair value of the Series A-1 Shares of \$2,415,913 for the year ended December 31, 2018, which also adjusted the carrying value of the Series A-1 Preferred Liability.

FLRISH, INC.

Notes to Amended and Restated Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

- vii. The Company previously recorded transaction costs related to the issuance of these Series A-1 Shares in equity. Upon further review, these transaction costs were expensed, resulting in an increase in Professional Fees of \$292,119 and a corresponding increase in Share Capital for the year ended December 31, 2018.

(3) Series B Convertible Debentures Broker and Advisory Warrant Valuation Methodology

During the year ended December 31, 2018, the Company issued multiple tranches of convertible debenture units (the “Series B Debenture Units”), with each Series B Debenture Unit comprised of Series B Debentures and Series B Warrants (as both terms are defined in Note 9). As part of these issuances, the Company issued warrants to brokers and advisors in October and November 2018 for the services rendered. These Broker and Advisory Warrants (as defined below) were valued using the Black Scholes Merton model on the date of issuance. The total value calculated by the Company and recorded for the year ended December 31, 2018 was \$1,022,272. The key assumption used by the Company in the valuations is the expected term, which was assessed at five years as an approximation of the Company’s go public date.

The Company has determined that the expected term should have been three years and adjustment is appropriate, and as such, has restated its previously reported consolidated financial statements and all related disclosures as of and for the year ended December 31, 2018. The impact of this adjustment is as follows:

- i. The expected term of the Broker and Advisory Warrants used in the valuations was adjusted from five years to three years with all other assumptions used deemed appropriate.
- ii. The change in the valuation assumption required an adjustment to the warrant reserve to decrease the balance by \$390,044. The Company previously recorded a warrant reserve of approximately \$1.0 million.
- iii. The change in the valuation assumption required an adjustment to the debt discount associated with the Broker Warrants to decrease the balance by \$203,590. The Company previously recorded a debt discount of \$553,649.
- iv. The change in the valuation assumption decreased Professional Fees expenses associated with the issuance of the Advisory Warrants by \$186,454. The Company previously recorded an expense of \$469,122 related to these warrants.
- v. Certain transaction costs previously entirely allocated to the debt required re-allocation resulting in an increase in professional fee expense of \$269,365 and a corresponding increase in the carrying value of the Convertible Debentures.
- vi. The Series B Debentures were issued in Canadian foreign currency. The Company translated the carrying value of the instruments as of December 31, 2018 based on average exchange rates during the year. The Company should have used the spot exchange rates as of the period end. The adjustments resulted in foreign exchange gain of \$855,036 and decrease in the convertible debt balance by the corresponding amount. This was offset by a \$170,447 foreign exchange loss to correct changes in determining the carrying values of the Series B Debentures as of December 31, 2018.

FLRISH, INC.

Notes to Amended and Restated Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017

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(4) Share Based Compensation

During the period of August 2016 through the year ended December 31, 2018, the Company granted multiple stock option awards to various employees and some consultants. Most of the awards call for multi-period service periods as a required vesting condition with portions of the overall award becoming vested at various points over the entire vesting term. For the year ended December 31, 2018, the Company valued each grant using the Black Scholes Merton model on the date of grant and expensed the calculated value of each grant on a straight-line basis, over the term as vesting occurred.

Additionally, in April 2018, the Company granted contingent stock awards to four officers of the Company. During the year ended December 31, 2018, the Company used the Black Scholes Merton model to assess the value of these awards and expensed the value on a straight-line basis over the 24-month vesting period.

The Company has determined that an adjustment was necessary, and as such, has restated its previously reported consolidated financial statements and all related disclosures as of and for the year ended December 31, 2018. The impact of the adjustment is as follows:

- i. The contingent stock awards were revalued using a Monte Carlo simulation model. Additionally, the expense pattern was changed to recognize the share based compensation for each vesting tranche of each individual contingent stock award using graded vesting. The change in the valuation methodology and expense recognition required an adjustment to the share based compensation expense to increase the share based compensation expense by \$728,829. The Company previously recorded share based compensation expense for the contingent stock awards of \$1.0 million.
- ii. The stock option awards were expensed on a tranche-based pattern for each individual award using graded vesting instead of being recognized on a straight-line basis as one award. The change in the expense recognition method resulted in an increase to the option awards related share based compensation expense of \$921,188. The Company had previously recorded share based compensation expense related to the option awards of approximately \$3.1 million.
- iii. The above is offset by a reclass of \$469,122 to professional expenses for Broker Warrants previously included in stock-based compensation. Refer to 3.iv above for additional information.

(5) Gain/ Loss on Extinguishment - CFP term Loan

On July 18, 2017, Savature, Inc. (a wholly-owned subsidiary of the Company) entered into a loan agreement (the “CFP Loan”) with CFP. On September 7, 2018, the Company received a notice of default from CFP. On December 17, 2018, the Company entered into a settlement agreement with CFP (the “CFP Settlement Agreement”), pursuant to which the parties agreed to settle all claims with respect to the CFP Loan and the CFP Loan was converted into a term loan (the “Term Loan”) and Series B Debenture Units.

The debt settlement was accounted for as a debt extinguishment in accordance with IFRS 9. The Term Loan and the Series B Debenture Units were recorded at their fair values as of the date of

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the settlement. The Company recognized a loss on debt extinguishment of \$1.1 million. The Company has determined an adjustment was required, and as such, has restated its previously reported consolidated financial statements and all related disclosures as at and for the year ended December 31, 2018. Previously, the Company determined the loss as the difference between the present value of the carrying value of the existing debt and the present value of the consideration promised as part of the new debt. It was determined that the more appropriate accounting methodology is to evaluate the carrying value of the liability being extinguished (i.e. the existing debt). The impact was an adjustment of approximately \$1.2 million, decreasing the loss on extinguishment compared to amounts previously reported, and a corresponding adjustment to the Series B Debentures for the year ended December 31, 2018. An additional adjustment of \$218,742 was recorded to increase the Term Loan for a discount previously recorded on the new loan and unamortized debt issuance costs. The Term Loan with CFP does not require discounting in consideration of the short-term (less than 12 month) repayment schedule.

(6) Expected Credit Loss Allowance

In 2018, the Company recorded an expected credit loss allowance for \$2.1 million for the Company's accounts receivable balance with Patients Mutual Assistance Collective Corporation ("PMACC"), a related party to the Company (Note 15). The Company determined that it was more appropriate for the factors used to consider the recording of this reserve to have included the pending merger between PMACC and the Company which took place on January 7, 2019, and criteria in IFRS 9 related to expected credit loss. This adjustment also decreased general and administrative expense by approximately \$2.1 million.

(7) PMACC Debt Discount

As part of reviewing the fair value of the PMACC note receivable related to the Company's acquisition of PMACC, management identified certain changes in the accounting treatment in the calculation of the historical debt discount for the related party note between PMACC and FLRish (Note 15).

The Company determined that it was appropriate to adjust the value of the Note Receivable - Related Party when initially recorded in 2017 to reflect a gain for the sale of San Jose Wellness Solutions Corp. ("SJW"). Further, the interest was compounding monthly instead of annually as stipulated in the Note Receivable agreement, and the debt discount was amortized on a straight-line basis over the period instead of using an effective interest rate method. The combination of these changes resulted in the Company recording a gain of \$585,455 from the sale of its interest in a cannabis license located in San Leandro for the year ended December 31, 2017, and a decrease in interest income for the year ended December 31, 2018 of \$35,895. The adjustments to gain recognized also resulted in an increase in Notes Receivable - Related Party, Net of \$549,560 and \$585,455 as of December 31, 2018 and 2017, respectively.

(8) Other Adjustments

In evaluating the restatements described in (1) through (7) above, there were additional adjustments for \$23,497 included in Other Expenses, and the provision for tax penalties

FLRISH, INC.

Notes to Amended and Restated Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017

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represented reclassifications between such accounts to general and administrative expenses. Such adjustments were not individually material requiring further disclosure. Certain additional changes were made to conform to presentation.

In addition, for the year ended December 31, 2017 there were certain changes to cash flow classifications between operating and investing activities of certain non-cash items totaling \$2,512,484.

(9) Provision for Income Taxes

The Provision for Income Taxes for the year ended December 31, 2018 increased by \$134,742. The increase in the provision and corresponding increase in the Income Tax Payable is due to the Company updating the tax liability based on 2018 tax returns filed during 2019.

The following is a summary of the impact on the restatements on the consolidated statement of financial position, statement of operations, statement of cash flows and statement of changes in shareholders' equity (deficit) as of and for the year ended December 31, 2018 and 2017:

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	2018	Note 2	Adjustments	As Restated 2018
Assets				
Current Assets				
Cash	\$ 14,762,661		\$ -	\$ 14,762,661
Accounts Receivable - Related Party, Net	20,081,652	(6)	2,065,918	22,147,570
Prepaid Expenses	69,584		-	69,584
Total Current Assets	34,913,897		2,065,918	36,979,815
Non-Current Assets				
Property and Equipment, Net	9,236,133	(1)(i)	8,000,198	17,236,331
Notes Receivable - Related Party, Net	6,496,786	(7)	549,560	7,046,346
Deposits	277,130		-	277,130
Total Non-Current Assets	16,010,049		8,549,758	24,559,807
Total Assets	\$ 50,923,946		\$ 10,615,676	\$ 61,539,622
Liabilities and Shareholders' Equity (Deficit)				
Liabilities				
Current Liabilities				
Accounts Payable and Accrued Liabilities	\$ 5,961,141	(2)(iv)	\$ (981,008)	\$ 4,980,133
Notes Payable and Accrued Interest, Current Portion	1,561,258	(5)	218,742	1,780,000
Income Tax Payable	-	(8), (9)	147,742	147,742
Deferred Gain on Sale of Equipment, Current Portion	38,553	(1)(ii)	(38,553)	-
Total Current Liabilities	7,560,952		(653,077)	6,907,875
Long Term Liabilities				
Notes Payable and Accrued Interest, Net of Current Portion	-	(1)(iii)	9,709,474	9,709,474
Series A Preferred Liability	-	(2)(iii),(iv),(vi)	28,359,357	28,359,357
Derivative Liability	28,126,745	(2)(iii),(v)	(13,080,117)	15,046,628
Deferred Gain on Sale of Equipment, Net of Current Portion	253,810	1(ii)	(253,810)	-
Deferred Rent	129,200	(1)(iv)	(129,200)	-
Convertible Debentures	17,679,766	(3)(vi), (5)	(1,643,481)	16,036,285
Total Long Term Liabilities	46,189,521		22,962,223	69,151,744
Total Liabilities	53,750,473		22,309,146	76,059,619
Shareholders' Equity (Deficit)				
Share Capital	27,101,578	(2)(iii)	(17,493,530)	9,608,048
Contributed Surplus	(8,332,513)	(2)(ii), (iv),(4)(i),(ii)	14,424,152	6,091,639
Warrants	1,022,772	(2)(v), (3)(ii)	(390,044)	632,728
Accumulated Deficit	(22,618,364)		(8,234,048)	(30,852,412)
Total Shareholders' Equity (Deficit)	(2,826,527)		(11,693,470)	(14,519,997)
Total Liabilities and Shareholders' Equity (Deficit)	\$ 50,923,946		\$ 10,615,676	\$ 61,539,622

FLRISH, INC.**Notes to Amended and Restated Consolidated Financial Statements****For the Years Ended December 31, 2018 and 2017***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***CONSOLIDATED STATEMENT OF OPERATIONS**

	2018	Note 2	Adjustment	As Restated 2018
Services Revenue - Related Party	\$ 16,935,545		\$ -	\$ 16,935,545
Rental Revenue - Related Party	4,397,275		-	4,397,275
Total Revenue	21,332,820		-	21,332,820
Cost of Revenue	7,896,391		-	7,896,391
Gross Profit	13,436,429		-	13,436,429
Expenses				
General and Administrative	11,484,625	(1)(iv), (6)	(2,963,027)	8,521,598
Professional Fees	4,220,388	(3)(iv)(v), (2)(vii)	874,014	5,094,402
Share-Based Compensation	4,678,055	(4)(i), (4)(ii)	1,181,595	5,859,650
Depreciation and Amortization	670,798	(1)(i)	505,392	1,176,190
Total Operating Expenses	21,053,866		(402,026)	20,651,840
Loss from Operations	(7,617,437)		402,026	(7,215,411)
Other Income (Expense)				
Interest Expense, Net	(1,928,411)	(1)(iii), (7)	(1,484,818)	(3,413,229)
Gain on Sale of Equipment	54,063	(1)(ii)	(38,554)	15,509
Foreign Exchange Gain	-	(3)(vi)	684,589	684,589
Fair value adjustment	-	(2)(vi)	(2,415,913)	(2,415,913)
Loss on Debt Extinguishment	(1,098,671)	(2)(iii), (5)	(3,227,190)	(4,325,861)
Change in Fair Value of Derivative Liability	295,998	2(ii)	(730,415)	(434,417)
Other Expenses	(309,764)	(8)	(18,750)	(328,514)
Provision for tax penalties	-	(8)	(4,747)	(4,747)
Total Other Income (Expense)	(2,986,785)		(7,235,798)	(10,222,583)
Loss Before Provision for Income Taxes	(10,604,222)		(6,833,772)	(17,437,994)
Provision for Income Taxes	8,000	(9)	134,742	142,742
Net Loss	(10,612,222)		(6,968,514)	(17,580,736)
Net Loss Attributable to FLRish, Inc.	\$ (10,612,222)		\$ (6,968,514)	\$ (17,580,736)

FLRISH, INC.

Notes to Amended and Restated Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2017	Note 2	Adjustments	As Restated 2017
Assets				
Current Assets				
Cash	\$ 1,490,612		\$ -	\$ 1,490,612
Accounts Receivable - Related Party, Net	9,641,424		-	9,641,424
Prepaid Expenses	150,319		-	150,319
Total Current Assets	11,282,355		-	11,282,355
Non-Current Assets				
Property and Equipment, Net	7,094,641	(1)(i)	8,505,591	15,600,232
Notes Receivable - Related Party, Net	1,893,772	(7)	585,455	2,479,227
Deposits	326,366		-	326,366
Total Non-Current Assets	9,314,779		9,091,046	18,405,825
Total Assets	\$ 20,597,134		\$ 9,091,046	\$ 29,688,180
Liabilities and Shareholders' Equity (Deficit)				
Liabilities				
Current Liabilities				
Accounts Payable and Accrued Liabilities	\$ 4,440,441	(8)	\$ (6,400)	\$ 4,434,041
Notes Payable and Accrued Interest, Current Portion	11,012,896		-	11,012,896
Notes Payable and Accrued Interest - Related Party	1,700,000		-	1,700,000
Income Tax Payable	-	(8)	6,400	6,400
Deferred Gain on Sale of Equipment, Current Portion	38,553	1(ii)	(38,553)	-
Total Current Liabilities	17,191,890		(38,553)	17,153,337
Long Term Liabilities				
Notes Payable and Accrued Interest, Net of Current Portion	3,881,336	(1)(iii)	9,276,110	13,157,446
Derivative Liability	-	(2)(ii)	2,422,796	2,422,796
Deferred Gain on Sale of Equipment, Net of Current Portion	292,364	1(ii)	(292,364)	-
Deferred Rent	38,000	(1)(iv)	(38,401)	(401)
Total Long Term Liabilities	4,211,700		11,368,141	15,579,841
Total Liabilities	21,403,590		11,329,588	32,733,178
Shareholders' Equity (Deficit)				
Share Capital	100,949		-	100,949
Contributed Surplus	231,989		-	231,989
Accumulated Deficit	(10,278,898)	(2)(ii)	(2,238,542)	(12,517,440)
Non-Controlling Interest	9,139,504		-	9,139,504
Total Shareholders' Equity (Deficit)	(806,456)		(2,238,542)	(3,044,998)
Total Liabilities and Shareholders' Equity (Deficit)	\$ 20,597,134		\$ 9,091,046	\$ 29,688,180

FLRISH, INC.**Notes to Amended and Restated Consolidated Financial Statements****For the Years Ended December 31, 2018 and 2017***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***CONSOLIDATED STATEMENT OF OPERATIONS**

	2017	Note 2	Adjustments	As Restated 2017
Services Revenue - Related Party	\$ 12,595,188		\$ -	\$ 12,595,188
Rental Revenue - Related Party	2,086,822		-	2,086,822
Total Revenue	14,682,010		-	14,682,010
Cost of Revenue	4,124,561		-	4,124,561
Gross Profit	10,557,449		-	10,557,449
Expenses				
General and Administrative	8,696,415	(1)(iv)	(447,000)	8,249,415
Professional Fees	2,601,127		-	2,601,127
Share-Based Compensation	94,239		-	94,239
Impairment Loss	3,637,574		-	3,637,574
Depreciation and Amortization	250,283	(1)(i)	227,427	477,710
Total Operating Expenses	15,279,638		(219,573)	15,060,065
Loss from Operations	(4,722,189)		219,573	(4,502,616)
Other Income (Expense)				
Interest Expense, Net	(1,267,867)	(1)(iii), (2)(i)	(1,345,255)	(2,613,122)
Gain on Sale of Investment	334,186	(7)	585,455	919,641
Gain on Sale of Equipment	73,664	(1)(ii)	(16,065)	57,599
Change in Fair Value of Derivative Liability	-	(2)(ii)	(620,143)	(620,143)
Other Expenses	(360,993)		-	(360,993)
Total Other Income (Expense)	(1,221,010)		(1,396,008)	(2,617,018)
Loss Before Provision for Income Taxes	(5,943,199)		(1,176,435)	(7,119,634)
Provision for Income Taxes	10,400		-	10,400
Net Loss Before Non-Controlling Interest	(5,953,599)		(1,176,435)	(7,130,034)
Net Loss Attributable to Non-Controlling Interest	(11,540)		-	(11,540)
Net Loss Attributable to FLRish, Inc.	\$ (5,942,059)		\$ (1,176,435)	\$ (7,118,494)

FLRISH, INC.

Notes to Amended and Restated Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	As Reported 2018	See Note 2 Adjustments	Restated 2018	As Reported 2017	See Note 2 Adjustments	Restated 2017
CASH FLOWS FROM OPERATING ACTIVITIES						
Net Loss Before Non-controlling Interest	\$ (10,612,222)	\$ (6,968,514)	\$ (17,580,736)	\$ (5,953,599)	\$ (1,176,435)	\$ (7,130,034)
Adjustments to Reconcile Net Loss to Net Cash Used In Operating Activities:						
Depreciation and Amortization	670,798	505,392	1,176,190	250,283	227,427	477,710
Accreted Interest	329,194	875,609	1,204,803	1,015,391	-	1,015,391
Amortization of Note Receivable Discount - Related Party	(270,732)	35,895	(234,837)	(4,512)	-	(4,512)
Amortization of Debt Issuance Costs	229,500	40,500	270,000	-	-	-
Impairment of Property and Equipment	240,000	-	240,000	-	-	-
Change in Fair Value of Derivative Liability	(295,998)	730,415	434,417	-	620,143	620,143
Loss on Debt Extinguishment	1,098,671	3,227,190	4,325,861	-	-	-
Share Based Compensation	4,678,055	1,181,595	5,859,650	94,239	-	94,239
Warrants Issued for Services	-	282,668	282,668	-	-	-
Deferred Rent	91,200	(91,200)	-	38,000	(38,401)	(401)
Impairment Loss	-	-	-	3,637,574	-	3,637,574
Gain on Sale of Equipment	-	-	-	-	-	-
Gain on Sale of Investment	-	-	-	(334,186)	(585,455)	(919,641)
Foreign Exchange Gain	-	(684,589)	(684,589)	-	-	-
Fair Value Adjustment	-	2,415,913	2,415,913	-	-	-
Changes in Operating Assets and Liabilities:						
Accounts Receivable - Related Party	(10,933,968)	(2,065,918)	(12,999,886)	(7,069,779)	-	(7,069,779)
Affect of adoption of IFRS 9	-	-	-	-	-	-
Prepaid Expenses	80,735	-	80,735	(129,519)	-	(129,519)
Deposits	49,236	-	49,236	(272,672)	-	(272,672)
Deferred Tax Assets	-	-	-	-	-	-
Accounts Payable and Accrued Liabilities	3,060,175	(1,205)	3,058,970	3,094,443	(2,518,882)	575,561
Accounts Payable - Related Party	-	-	-	(538,259)	-	(538,259)
Accrued Interest	737,768	25,486	763,254	-	936,656	936,656
Income Tax Payable	-	141,342	141,342	-	6,400	6,400
Deferred Gain on Sale of Equipment	(38,553)	38,553	-	330,917	(330,917)	-
NET CASH USED IN OPERATING ACTIVITIES	(10,886,141)	(310,868)	(11,197,009)	(5,841,679)	(2,859,464)	(8,701,143)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of Property and Equipment	(5,564,774)	-	(5,564,774)	(10,459,397)	2,551,994	(7,907,403)
Proceeds from Sale of Property and Equipment	-	-	-	8,772,530	(8,772,530)	-
Advances on Notes Receivable - Related Party	(5,515,266)	-	(5,515,266)	(55,000)	-	(55,000)
Payments Received on Notes Receivable - Related Party	1,182,987	-	1,182,987	90,132	-	90,132
Purchase of Investments	-	-	-	(555,188)	-	(555,188)
NET CASH USED IN INVESTING ACTIVITIES	(9,897,053)	-	(9,897,053)	(2,206,923)	(6,220,536)	(8,427,459)

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	As Reported 2018	See Note 2 Adjustments	Restated 2018	As Reported 2017	See Note 2 Adjustments	Restated 2017
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from Convertible Debentures, Net of Loan Fees	25,693,490	-	25,693,490	850,000	-	850,000
Proceeds from Notes Payable, Net of Loan Fees	5,167,500	-	5,167,500	6,862,500	9,080,000	15,942,500
Proceeds from Notes Payable - Related Party	-	-	-	1,000,000	-	1,000,000
Payments on Notes Payable - Related Party	(1,694,097)	-	(1,694,097)	(3,008,533)	-	(3,008,533)
Proceeds from Exercise of Stock Options	80,469	18,749	99,218	100,899	-	100,899
Proceeds from Series A Preferred Stock Offering	5,207,881	292,119	5,500,000	-	-	-
Distribution to Non-Controlling Interest	(400,000)	-	(400,000)	(600,000)	-	(600,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	34,055,243	310,868	34,366,111	5,204,866	9,080,000	14,284,866
INCREASE (DECREASE) IN CASH	13,272,049	-	13,272,049	(2,843,736)	-	(2,843,736)
CASH, BEGINNING OF PERIOD	1,490,612	-	1,490,612	4,334,348	-	4,334,348
CASH, END OF YEAR	\$ 14,762,661	\$ -	\$ 14,762,661	\$ 1,490,612	\$ 1,490,612	\$ 1,490,612
Supplementary information:						
Interest Paid	\$ 1,322,194	\$ 817,200	\$ 2,139,394	\$ 257,052	\$ 408,600	\$ 665,652
Income Taxes Paid	\$ 39,089	\$ -	\$ 39,089	\$ 13,600	\$ -	\$ 13,600
Non-Cash Investing and Financing Activities						
Property and Equipment Acquired Through Accrual	\$ -	\$ -	\$ -	\$ 2,512,484	\$ -	\$ 2,512,484
Cumulative Impact of Adoption of IFRS 9	\$ 493,740	\$ -	\$ 493,740	\$ -	\$ -	\$ -
Purchase of Non-controlling Interest by Issuance of Series B Common Stock	\$ 9,000,000	\$ -	\$ 9,000,000	\$ -	\$ -	\$ -
Series A Preferred Issued Upon Conversion of Derivative Liability	\$ -	\$ 3,663,483	\$ 3,663,483	\$ -	\$ -	\$ -
Conversion of Notes Payable and Accrued Interest to Series A Preferred Stock	\$ 12,304,398	\$ -	\$ 12,304,398	\$ -	\$ -	\$ -
Fair Value of Derivative Liability Upon Issuance	\$ 28,422,742	\$ (12,569,844)	\$ 15,852,898	\$ -	\$ -	\$ -
Shares issued for Interest Payable	\$ 407,881	\$ -	\$ 407,881	\$ -	\$ -	\$ -
Issuance of Broker Warrants as Debt Discount	\$ 553,649	\$ (203,590)	\$ 350,059	\$ -	\$ -	\$ -
Exchange of Term Loan for Series B Units	\$ 6,583,124	\$ (149,704)	\$ 6,433,420	\$ -	\$ -	\$ -
Investment in Cannabis License sold for Note Receivable- Related Party	\$ -	\$ -	\$ -	\$ 1,419,639	\$ -	\$ 1,419,639

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Notes to Amended and Restated Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

	As Reported		Restated		As Reported		Restated		As Reported		Restated		As Reported		Restated		As Reported		Restated	
	Note 2	Share Capital	See Note 2 Adjustments	Share Capital	Contributed Surplus	See Note 2 Adjustments	Contributed Surplus	Warrants	See Note 2 Adjustments	Warrants	Accumulated Deficit	See Note 2 Adjustments	Accumulated Deficit	Non-Controlling Interest	Non-Controlling Interest	Total	See Note 2 Adjustments	Total	Total	
Balance, January 1, 2017		\$ 50	\$ -	\$ 50	\$ 137,750	\$ -	\$ 137,750	\$ -	\$ -	\$ -	\$ (4,336,839)	\$ (1,062,107)	\$ (5,398,946)	\$ 9,751,044	\$ 9,751,044	\$ 5,552,005	\$ (1,062,107)	\$ 4,489,898	\$ 4,489,898	
Exercise of Stock Options		100,899	-	100,899	-	-	-	-	-	-	-	-	-	-	-	100,899	-	100,899	100,899	
Distribution to Non-Controlling Interest		-	-	-	-	-	-	-	-	-	-	-	-	(600,000)	(600,000)	(600,000)	-	(600,000)	(600,000)	
Share-Based Compensation		-	-	-	94,239	-	94,239	-	-	-	-	-	-	-	-	94,239	-	94,239	94,239	
Net Loss for the Year		-	-	-	-	-	-	-	-	-	(5,942,059)	(1,176,435)	(7,118,494)	(11,540)	(11,540)	(5,953,599)	(1,176,435)	(7,130,034)	(7,130,034)	
Balance, December 31, 2017		100,949	-	100,949	231,989	-	231,989	-	-	-	(10,278,898)	(2,238,542)	(12,517,440)	9,139,504	9,139,504	(806,456)	(2,238,542)	(3,044,998)	(3,044,998)	
Balance, January 1, 2018		\$ 100,949	\$ -	\$ 100,949	\$ 231,989	\$ -	\$ 231,989	\$ -	\$ -	\$ -	\$ (10,278,898)	\$ (2,238,542)	\$ (12,517,440)	\$ 9,139,504	\$ 9,139,504	\$ (806,456)	\$ (2,238,542)	\$ (3,044,998)	\$ (3,044,998)	
Adjustment Related to the Adoption of IFRS 9 - Credit Loss Reserve		-	-	-	-	-	-	-	-	-	(493,740)	-	(493,740)	-	-	(493,740)	-	(493,740)	(493,740)	
Exercise of Stock Options	(8)	80,469	18,749	99,218	-	-	-	-	-	-	-	-	-	-	-	80,469	18,749	99,218	99,218	
Share-Based Compensation	(4)(i),(ii)	-	-	-	4,208,933	1,650,717	5,859,650	-	-	-	-	-	-	-	-	4,208,933	1,650,717	5,859,650	5,859,650	
Issuance of Shares as Settlement for Interest Payable		407,881	-	407,881	-	-	-	-	-	-	-	-	-	-	-	407,881	-	407,881	407,881	
Purchase of Non-Controlling Interest by Issuance of Series B Common Stock		9,000,000	-	9,000,000	-	-	-	-	-	-	(260,496)	-	(260,496)	(8,739,504)	(8,739,504)	-	-	-	-	
Issuance of Broker and Advisory Warrants	(3)(ii)	-	-	-	-	-	-	1,022,772	(390,044)	632,728	-	-	-	-	-	1,022,772	(390,044)	632,728	632,728	
Conversion of Notes Payable and Accrued Interest to Series A Preferred Stock	(2)(iii)	12,304,398	(12,304,398)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Fair Value of Derivative Liability - Series A Preferred Stock	(2)(v)	-	-	-	(12,773,435)	12,773,435	-	-	-	-	-	-	-	-	-	(12,773,435)	12,773,435	-	-	
Series A Preferred Stock Dividends	(2)(iv)	-	-	-	-	-	-	-	-	-	(973,008)	973,008	-	-	-	(973,008)	973,008	-	-	
Series A Preferred Stock Offering	(2)(iii)	5,500,000	(5,500,000)	-	-	-	-	-	-	-	-	-	-	-	-	5,500,000	(5,500,000)	-	-	
Share Issuance Costs	(2)(vii)	(292,119)	292,119	-	-	-	-	-	-	-	-	-	-	-	-	(292,119)	292,119	-	-	
Distribution to Non-Controlling Interest		-	-	-	-	-	-	-	-	-	-	-	-	(400,000)	(400,000)	(400,000)	-	(400,000)	(400,000)	
Net Loss for the Year		-	-	-	-	-	-	-	-	-	(10,612,222)	(6,968,515)	(17,580,736)	-	-	(10,612,222)	(6,968,515)	(17,580,736)	(17,580,736)	
Balance, December 31, 2018		\$ 27,101,578	\$ (17,493,530)	\$ 9,608,048	\$ (8,332,513)	\$ 14,424,152	\$ 6,091,639	\$ 1,022,772	\$ (390,044)	\$ 632,728	\$ (22,618,364)	\$ (8,234,049)	\$ (30,852,412)	\$ -	\$ -	\$ (2,826,527)	\$ (11,693,470)	\$ (14,519,997)	\$ (14,519,997)	

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3. BASIS OF PREPARATION

(a) Statement of Compliance

These amended and restated consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”) in effect for the years ended December 31, 2018 and 2017.

These amended and restated consolidated financial statements were approved and authorized for issue by the board of directors of the Company on August 10, 2020.

(b) Basis of Measurement

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

(c) Functional Currency

These 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 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:

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		2018	2017
Entity	Place of incorporation	Effective ownership	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 (Note 11(d)).

4. SIGNIFICANT ACCOUNTING POLICIES**(a) Accounts and Notes Receivable**

Accounts and notes receivable are measured at amortized cost net of allowance for uncollectible amounts. The Company provides for probable losses on accounts and notes receivable using the allowance method. The allowance is determined based on management's experience and collection efforts. Balances that remain outstanding after the Company has used reasonable collection efforts are written off. At December 31, 2018 and 2017, all accounts receivable were due from PMACC, a related-party, for rental and contract services performed (Notes 16 and 17).

(b) Property and Equipment

Property and equipment purchases greater than \$5,000 are capitalized at cost and depreciated or amortized on a straight-line basis over the estimated useful lives of the respective assets, as follows:

Agricultural buildings	15 years
Agricultural equipment	5 years
Furniture and fixtures	7 years
Office equipment	5 years
Security equipment	5 years

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Computer equipment	3 years
Leasehold improvements	Remaining life of lease

Expenditures for repairs and maintenance are charged to General and Administrative expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any related gain or loss is reflected in income for the period. The Company annually reviews the property and equipment records for impairment of value and records any adjustments necessary. An item of equipment is de-recognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the Consolidated Statements of Operations in the year the asset is de-recognized.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for the intended use, and borrowing costs on qualifying assets. The Company determined that the capitalized interest related to self-constructed assets was not material as of and for the years ended December 31, 2018 and 2017. During their construction, items of property and equipment are classified as construction in progress. When the asset is available for use, it is transferred from construction in progress to the appropriate category of property and equipment and depreciation on the item commences.

Certain capital assets have been pledged as collateral for a debt obligation (Note 8(c)).

(c) Leases

Leases that do not transfer to the Company substantially all the benefits and risks incident to ownership of the asset are accounted for as operating leases. Operating lease payments are expensed on a straight-line basis over the lease term.

(d) Share-Based Compensation

The Company has a stock option plan. The fair value of share-based payments granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. For equity-settled share-based payment transactions with non-employees, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

For equity-settled share-based payment transactions with employees and others providing similar services, the fair value is measured at the grant date and recognized over the period during which the share-based payments vest with a corresponding increase in equity. The fair value of the share-based payments granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the share-based payments were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share-based payments that are expected to vest.

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The fair value of share-based payments related to restricted stock awards granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity.

(e) Income Taxes

Income tax expense is recognized in the Consolidated Statements of Operations. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that either some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company recognizes a tax benefit from an uncertain tax position only if it is probable that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that is probable of being realized upon ultimate settlement.

The amount of unrecognized tax benefits is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination.

(f) Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets (if any), are reviewed for an indication of impairment at each reporting date. If an indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the asset's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been previously recognized.

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(g) Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the review affects both current and future periods.

Judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below:

(i) Allowance for Doubtful Accounts

The Company makes an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer credit-worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

(ii) Share-Based Compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. In calculating the share-based compensation expense, management is required to make certain assumptions and estimates such as the expected life of the options, volatility of the Company's share price, risk free rates, dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

(iii) Estimated Useful Lives and Depreciation of Property and Equipment

Depreciation of property and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(iv) Warrants

The Company uses the Black-Scholes option pricing model and the Monte Carlo Simulation Model to determine the fair value of its warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected

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life of the warrants, volatility of the Company's share price, risk free rates, and dividend yields. Changes in assumptions used to estimate fair value could result in materially different results. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding these instruments are disclosed in Notes 10(c) and 12.

(v) Fair Value of Financial Instruments

Individual fair values are attributed to the different components of a financing transaction, notably convertible debt, promissory notes, Series A preferred liability and warrants. The Company uses judgment in selecting the methods used to make certain assumptions and in performing the fair value calculations in order to determine (i) the values attributed to each component of a transaction at the time of their issuance; (ii) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (iii) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding these instruments are disclosed in Note 9 and Note 22(j).

(vi) Convertible Debentures

Convertible debentures are compound financial instruments for which components are accounted for separately as financial liabilities or debt instruments. The financial liability, which represents the ability to convert the convertible debentures to equity in the future, is both initially measured and subsequently remeasured at either its fair value or amortized cost. The residual amount is accounted for as a debt instrument at issuance. The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires management judgment. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

(vii) Derivative Liabilities

The Company uses the fair-value method of accounting for derivative liabilities and such liabilities are remeasured at each reporting date with changes in fair value recorded in the period incurred. The fair value is estimated using the Monte Carlo simulation model. Critical estimates and assumptions used in the model are discussed in Note 10.

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(viii) Non-controlling interest

Non-controlling interest represents interests owned by parties that are not members of the ultimate common control group. Non-controlling interest is to be initially measured either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. The share of net assets attributable to non-controlling interests is presented as a component of equity. Their share of net income or loss is recognized directly in equity.

(h) New or Amended Standards Effective January 1, 2018

The Company has adopted the following new or amended IFRS standards for the period beginning January 1, 2018:

(i) IFRS 2, Share-Based Payments

In June 2016, the IASB issued final amendments to this standard. IFRS 2 clarifies the classification and measurement of share-based payments transactions. These amendments deal with variations in the final settlement arrangements including: (a) accounting for cash settled share-based payment transactions that include a performance condition; (b) classification of share-based payment transactions with net settlement features; and (c) accounting for modifications of share-based payment transactions from cash settled to equity. IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has assessed this standard and will account for share-based payments on this basis as they occur. There was no significant impact on the consolidated financial statements as a result of this adoption.

(ii) IFRS 7 – Financial Instruments: Disclosure

IFRS 7, *Financial Instruments: Disclosure*, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The adoption of this new standard did not have a material impact on its consolidated financial statements.

(iii) IFRS 9 - Financial Instruments

IFRS 9 *Financial Instruments* replaced IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the statements of financial position at the time the Company becomes a party to the contractual provisions of the financial instrument. The Company adopted IFRS 9 using the retrospective approach where the cumulative impact of adoption was recognized in accumulated deficits as of January 1, 2018, and comparatives will not be restated.

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IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income, or (iii) at fair value through profit or loss. The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

- Amortized cost

Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method.

- Fair value through other comprehensive income

Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss

Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and cash equivalents.

- Designated at fair value through profit or loss

On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The

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Company does not hold any financial assets designated to be measured at fair value through profit or loss.

Consistent with IAS 39, financial liabilities under IFRS 9 are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost, except derivatives, which are measured at fair value through profit or loss.

The following table summarizes the classification of the Company's financial instruments under IAS 39 and IFRS 9:

	IAS 39 Classification	IFRS 9 Classification
Financial Assets:		
Cash	Loans and receivables	Amortized cost
Accounts Receivable	Loans and receivables	Amortized cost
Notes Receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Financial Liabilities:		
Accounts Payable and Accrued Liabilities	Other financial liabilities	Amortized cost
Notes Payable to Related and Nonrelated Parties	Other financial liabilities	Amortized cost
Series A Preferred Liability	Other financial liabilities	Fair Value Through Profit or Loss
Derivative Liability	Other financial liabilities	Fair Value Through Profit or Loss
Convertible Debentures	Other financial liabilities	Amortized cost

The Company adopted IFRS 9 reporting as of January 1, 2018, which resulted in an adjustment to equity of \$493,740. The Company has taken an exemption not to restate comparative information for prior periods. Therefore, comparative periods have not been restated, and the results of adopting IFRS 9 have been recognized in accumulated deficit as at January 1, 2018.

IFRS 9 uses an expected credit loss impairment model as opposed to an incurred credit loss model under IAS 39. The impairment model is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. For accounts receivable excluding taxes receivable, the Company utilized a provision matrix, as permitted under the simplified approach, and has measured the expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and other factors. The carrying amount of trade receivables is reduced for any expected credit losses through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations. At the point when the Company is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off. The adoption of the new expected credit

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loss impairment model had a negligible impact on the carrying amounts of financial assets at amortized cost.

(iv) *IFRS 15 – Revenue from Contracts with Customers*

The IASB replaced IAS 18 *Revenue*, in its entirety with IFRS 15 *Revenue from Contracts with Customers*. The Company adopted IFRS 15 using the modified retrospective approach where the cumulative impact of adoption was recognized in retained earnings as of January 1, 2018, and comparatives will not be restated. IFRS 15 requires that revenue from contracts with customers be recognized upon the transfer of control over goods or services to the customer. IFRS 15 utilizes a methodical framework for entities to follow to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time or over time, the assessment of which requires judgment. The model features the following contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized:

- 1) Identify the contract with a customer;
- 2) Identify the performance obligation(s) in the contract;
- 3) Determine the transaction price;
- 4) Allocate the transaction price to the performance obligation(s) in the contract; and
- 5) Recognize revenue when or as performance obligation(s) are satisfied.

Management service revenues earned from the Company's clients are recognized monthly as performance obligations set forth in the management services agreements are completed. Payment is typically due upon the issuance of the invoice for the completed performance obligations. This timing of recognition is consistent with the Company's previous revenue recognition policy under IAS 18.

Incremental costs to obtain a contract with a customer are capitalized if the Company expects to recover those costs and are amortized into operating expenses over the life of a contract on a rational, systematic basis consistent with the pattern of the transfer of goods or services to which the asset relates. The Company had no capitalized incremental costs of obtaining a customer contract on adoption of IFRS 15 or as at December 31, 2018.

Lease revenue comes from an escalating lease and records deferred rent liabilities to adjust the lease obligation to straight-line amortization.

Based on the Company's assessment, the adoption of this new standard had no impact on the amounts recognized in its consolidated financial statements.

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(v) *IFRIC 23, Uncertainty over Income Tax Treatments (“IFRIC 23”)*

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The Company is early adopting IFRIC 23 as of December 31, 2018, and the standard did not have a material impact to the financial statements.

(i) Recent Accounting Pronouncements

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective:

(i) *IFRS 16 - Leases*

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. Adoption of IFRS 16 did not have a material impact on the Company’s consolidated financial statements.

(ii) *IAS 28, Long-term Interests (“IAS 28”)*

In October 2017, the IASB amended IAS 28, Long-term Interests in Associates and Joint Ventures. The amendments were added to clarify that an entity applies IFRS 9 “Financial Instruments” to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The standard which will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. Adoption of IAS 28 did not have a material impact on the Company’s consolidated financial statements.

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5. 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 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 66th month from the effective date of the MPMA, the agreement will 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 a series of agreements (the “Merger Option Agreements”) with the shareholders of PMACC and SJW providing FLRish with the right (the “Merger Options”) to purchase 100% of the equity interests of PMACC and SJW for 4,051,247 shares of the Company’s Series B Common Stock plus the assumption of debt owed by PMACC and SJW (Note 24(d)).

6. PROPERTY AND EQUIPMENT

Property and Equipment assets consists of the following at December 31, 2018 and 2017:

	Agricultural buildings	Agricultural equipment	CIP	Furniture and fixtures	Land	Office and computer equipment	Security equipment	Leasehold improvements	TOTAL
At Cost									
As at January 1, 2017	\$ 786,854	\$ 206,932	\$ 685,104	\$ 40,654	\$ 3,404,572	\$ 68,617	\$ 534,423	\$ -	\$ 5,727,156
Additions	2,030,038	595,810	7,673,788	-	-	78,964	38,715	2,572	10,419,887
Disposals	-	(285)	-	-	-	-	-	-	(285)
As at December 31, 2017	2,816,892	802,457	8,358,892	40,654	3,404,572	147,581	573,138	2,572	16,146,758
Additions	2,333,719	2,810,299	1,171,327	-	-	4,855	-	-	6,320,200
Disposals	-	-	(240,001)	-	-	-	-	-	(240,001)
Reclass on Completed Phase of Construction	-	-	(3,267,910)	-	-	-	-	-	(3,267,910)
As at December 31, 2018	\$ 5,150,611	\$ 3,612,756	\$ 6,022,308	\$ 40,654	\$ 3,404,572	\$ 152,436	\$ 573,138	\$ 2,572	\$ 18,959,047
Accumulated Depreciation									
As at January 1, 2017	\$ 24,250	\$ 11,050	\$ -	\$ 1,733	\$ -	\$ 5,062	\$ 26,721	\$ -	\$ 68,816
Depreciation Expense	222,898	167,060	-	5,574	-	27,499	54,651	28	477,710
Disposals	-	-	-	-	-	-	-	-	-
As at December 31, 2017	247,148	178,110	-	7,307	-	32,561	81,372	28	546,526
Depreciation Expense	442,421	567,815	-	5,807	-	45,347	114,628	172	1,176,190
Disposals	-	-	-	-	-	-	-	-	-
As at December 31, 2018	\$ 689,569	\$ 745,925	\$ -	\$ 13,114	\$ -	\$ 77,908	\$ 196,000	\$ 200	\$ 1,722,716
Net Book Value									
As at December 31, 2017	\$ 2,569,744	\$ 624,347	\$ 8,358,892	\$ 33,347	\$ 3,404,572	\$ 115,020	\$ 491,766	\$ 2,544	\$ 15,600,232
As at December 31, 2018	\$ 4,461,042	\$ 2,866,831	\$ 6,022,308	\$ 27,540	\$ 3,404,572	\$ 74,528	\$ 377,138	\$ 2,372	\$ 17,236,331

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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 year ended December 31, 2018, \$3,267,910 of CIP was placed in service, resulting in net additions in property and equipment of \$3,052,290. There were \$10,419,887 of additions in property and equipment in the year ended December 31, 2017.

Depreciation and amortization expense for the years ended December 31, 2018 and 2017, totaled \$1,176,190 and \$477,710, respectively.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accounts payable	\$ 1,720,093	\$ 3,206,284
Accrued liabilities	1,033,104	698,550
Accrued payroll	450,290	529,207
Series B payable	1,776,646	-
	<u>\$ 4,980,133</u>	<u>\$ 4,434,041</u>

8. NOTES PAYABLE AND ACCRUED INTEREST

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

		<u>2018</u>	<u>2017</u>
Related party note	(a)	\$ -	\$ 1,700,000
Equipment loan	(b)	-	24,344
Term loan	(c)	1,780,000	3,900,000
Financing arrangement	(d)	9,709,474	9,276,110
Convertible notes and accrued interest	(e)	-	11,007,388
Total notes payable		\$ 11,489,474	\$ 25,907,842
Less unamortized debt issuance costs	(c)	-	(37,500)
Net amount		\$ 11,489,474	\$ 25,870,342
Less notes payable, current portion		<u>(1,780,000)</u>	<u>(12,712,896)</u>
Notes payable, net of current portion		<u>\$ 9,709,474</u>	<u>\$ 13,157,446</u>

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(a) Related Party Note

In December 2015, the Company entered into an unsecured loan agreement with an officer of the Company. The note bears interest at 20% annually and is due on the later of December 31, 2016, or the date on which the Senior Notes (Note 8(e)) are repaid or converted in full into equity of the Company. As at December 31, 2017, the principal balance of the note was \$500,000 and accrued interest totaled \$200,000. All principal and accrued interest was paid in full in May 2018.

On December 19, 2017, the Company issued a promissory note with a face value of \$1,000,000 bearing interest at an annual rate of 12% to Murray Field & Company, LLC, maturing on March 1, 2018. The Murray Field Note was convertible upon the Company raising \$4,000,000 in equity financing. Subsequent to issuance, the maturity date was extended to May 1, 2018. On April 30, 2018, the Company raised \$5,500,000 from the sale of Series A-1 Preferred Stock (Note 22(j)) and the Murray Field Note converted automatically into 240,964 Series A-1 Shares. Accrued interest of \$78,834 was paid in cash at conversion.

(b) Equipment Loan

Savature issued a promissory note to Toyota Commercial Finance to finance the purchase of agricultural equipment, which is secured by the same equipment. The note was originated on September 8, 2016, with a 64-month term maturing January 8, 2022. The note bears interest at a rate of 4.9% per year with all unpaid principal and interest due on maturity. The note has no prepayment penalties and prohibits any repaid principal from being redrawn by Savature. The note was paid in full in December 2018. At December 31, 2017, the note had an outstanding balance of \$18,836, net of current portion of \$5,508.

(c) Term Loan

On July 18, 2017, Savature, Inc. (a wholly-owned subsidiary of the Company) entered into the CFP Loan. Pursuant to the terms of the CFP Loan, 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 the CFP Settlement Agreement, pursuant to which the parties agreed to settle all claims with respect to the CFP Loan.

The terms of the CFP 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

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same terms as those offered in the Company's Series B Debenture Unit Offering (Note 9). An initial payment of \$220,000 was made when the Company entered the agreement. The CFP Settlement Agreement also provides a 0% annual interest rate for the remaining monthly installments. The Term Loan requires Savature to meet certain financial covenants. Savature believes that it was in compliance with all associated financial covenants as of December 31, 2018.

As of December 31, 2018 and 2017, the unamortized loan fee was \$0 and \$37,500, respectively, and the principal balance net of unamortized loan fees and accreted interest was \$1,780,000 and \$3,900,000, respectively. The current portion was \$1,780,000 and \$0, at December 31, 2018 and 2017, respectively (Note 24(p)).

The debt settlement has been accounted for as a debt extinguishment in accordance with IFRS 9. The Term Loan and the Series B Debenture Units were recorded at their fair values as of the date of the settlement and the Company recognized a gain on debt extinguishment of \$149,703 for the year ended December 31, 2018.

(d) Financing arrangement

On July 14, 2017, the Company entered into a sale-leaseback transaction with CFP for 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.

Subsequent to the sale, the Company entered into the Lease with CFP for the property and equipment located at the Farm. The Lease commenced on July 18, 2017, with a term of 108 full months expiring on July 18, 2026. The Company has the option to extend the term of the Lease for an additional three years.

The Lease grants the Company a call option to purchase the property under the terms set forth in the agreement. Beginning on the 37th month after the commencement of the Lease, and through the term of the Lease and any extension period, the Company has the ability to exercise its call option for two months, at every six-month interval. In the event that the Company desires to purchase the property prior to the 37th month after the commencement of the Lease, the Company may purchase the property subject to a make whole provision which guarantees the Landlord a 15% internal rate of return for the first three years.

The Lease also grants CFP a put option to sell the Farm under the terms set forth in the agreement. Beginning on the 85th month after commencement of the Lease, CFP shall have the option for two months, at every 12-month interval, to require that the Company purchase the Farm from CFP.

The Company did not account for the sale-leaseback as a sale in July 2017, in consideration of the call and put options included in the Lease. Further, the Company has continuing involvement for improving the Farm through construction initiatives for additional cultivation greenhouse space. Therefore, the Company's risk of loss had not transferred at the time of sale. The transaction was recorded as a financing of the \$9.1 million over the term the Lease, with the Company exercising

FLRISH, INC.**Notes to Amended and Restated Consolidated Financial Statements****For the Years Ended December 31, 2018 and 2017***(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

their \$14.5 million purchase option at the end of the lease term. As a result, the transaction has been accounted for as a financing arrangement.

The effective interest rate after consideration of the Company's purchase option is 13.3%. The minimum payments included in the lease are applied to interest over the course of the lease, with a final payment made at the end for the purchase of the Farm. Interest is accreted using the effective interest rate method during the lease term based on the \$9.1 million loan and a purchase at the end of the lease term. The balance includes \$9.1 million principal and accrued interest of \$629,474 at December 31, 2018 and \$196,110 as of December 31, 2017, respectively. Future minimum payments due from the Company under the lease agreement are as follows:

2019	\$	817,200
2020		862,602
2021		908,004
2022		908,004
2023		953,400
Future periods		<u>2,496,990</u>
	\$	<u>6,946,200</u>

A reconciliation of the beginning and ending balances of notes payable for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Balance at the beginning of the period	\$ 25,870,342	\$ 9,106,041
Cash additions	5,400,000	17,792,500
Cash payments	(1,694,097)	(3,008,533)
Foreign exchange gain	(48,324)	-
Series B debentures conversion - CFP	(6,433,420)	-
Interest accruals	3,071,265	2,646,136
Series A conversion	(12,304,398)	-
Debt issuance costs	(232,500)	-
Interest cash payments	(2,139,394)	(665,802)
Balance at end of period	<u>\$ 11,489,474</u>	<u>\$ 25,870,342</u>

(e) Convertible Notes and Accrued Interest

During the years ended December 31, 2016 and 2015, the Company issued Senior Notes bearing 8% interest with a principal face value in the aggregate of \$6,000,000 in exchange for \$6,000,000 in cash. The Senior Notes principal and accrued interest were convertible at the election of the noteholder or upon a qualified equity financing of \$5,000,000 with a valuation cap of \$25,000,000. No principal or interest payments were made during the year ended December 31, 2017.

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During the years ended December 31, 2017 and 2016, the Company issued Junior Notes bearing 12% interest with a principal face value in aggregate of \$3,660,000 in exchange for \$3,660,000 in cash. The Junior Notes principal and accrued interest were convertible at election of the noteholder or upon a qualified equity financing of \$5,000,000 with a valuation cap of \$50,000,000. No principal or interest payments were made during the year ended December 31, 2017. The conversion feature does not provide for a fixed number of shares of the Company's preferred stock. As such, the conversion feature has been bifurcated from the underlying host and is being accounted for as a derivative liability in accordance with IFRS 9 (Note 10).

Upon completion of the Series A Offering (Note 22(j)) on April 30, 2018, principal and accrued interest of the Senior Notes and Junior Notes totaling \$12,304,398 were converted into 4,924,701 shares of Series A-1 Preferred Stock. No principal or interest payments were made prior to conversion. As of December 31, 2017, accrued interest for the Senior Notes and Junior Notes totaled \$1,347,388. The current portion of the Senior Notes and Junior Notes was \$11,007,388 at December 31, 2017 since all principal and accrued interest was set to mature on February 15, 2018.

9. CONVERTIBLE DEBENTURES

In October and November 2018, the Company completed a private placement (the "Series B Debenture Unit Offering") of 34,778 Series B Debenture Units at a price of CAD \$1,000 per Series B Debenture Unit for aggregate gross proceeds of \$26,410,135. 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.

As part of the CFP Settlement Agreement, the Company issued 8,624 Series B Debenture Units on the same terms as those offered in the Company's Series B Debenture Unit Offering.

Each Series B Debenture Unit is comprised of CAD \$1,000 principal amount of 12.0% unsecured convertible debentures ("Series B Debentures") and 87 share purchase warrants ("Series B Warrants"). As part of the Series B Debenture Unit Offering, and the issuance of the Series B Debenture Units pursuant to the CFP Settlement Agreement, the Company issued 3,025,686 and 750,288 Series B Warrants, respectively.

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 as amended by the first supplemental indenture dated February 6, 2019, between FLRish and Odyssey Trust Company, as debenture trustee to include an additional round of Series B Debenture Unit Offering in February 2019. 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 Shares of FLRish ("Underlying Shares") at a price of \$4.15 (CAD \$6.90) per share. 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

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completion of a going public transaction of FLRish (Note 24(a)), at a conversion price equal to the lower of: (a) CAD \$6.90; or (b) a 10% discount to the resulting issuer's (Note 24 (a)) 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 Series B Debentures at any time. Each Series B Warrant is exercisable into one Underlying Share at a price of \$6.45 (CAD \$8.60) per share until October 30, 2020, subject to adjustment and/or acceleration in certain circumstances. The Series B Warrants are governed by a warrant indenture dated as of October 30, 2018, as amended by the first supplemental warrant indenture dated February 6, 2019 (the "Warrant Indenture"), between FLRish and Odyssey Trust Company, as warrant agent.

Foundation Markets Inc. ("FMI") received a cash commission of \$754,694 (CAD \$992,154) equal to 7% of the aggregate proceeds of sales of the Series B Debenture Units to non-US purchasers and 168,303 Broker Warrants valued at \$350,060 in consideration for acting as agent in connection with the Unit Offering (Note 12).

The conversion price of the Series B Debenture Units and the exercise price of the Series B 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 10).

A reconciliation of the beginning and ending balances of Series B Debentures amortized cost as of December 31, 2018 is as follows:

	2018
Balance as of December 31, 2017	\$ -
Cash additions	26,410,135
Series B debentures conversion - CFP	6,433,420
Derivative component of debt	(15,852,898)
Foreign exchange gain, net	(664,472)
Interest accretion	1,184,686
Series B common stock for interest	(407,881)
Issuance of Broker Warrants	(350,060)
Cash paid for debt issuance costs	(716,645)
Balance as of December 31, 2018	\$ 16,036,285

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A reconciliation of the beginning and ending balances of the derivative liability for the years ended December 31, 2018 and 2017 is as follows:

	Senior / Junior Notes	Series B Debentures Conversion Feature	Series B Warrants Derivative Liability	Total Derivatives Liability	Income Statement - Change in Fair Value
Balance as of January 1, 2017	\$ 1,802,653	\$ -	\$ -	\$ 1,802,653	\$ -
Change in fair value of derivative liabilities	620,143	-	-	620,143	620,143
Balance as of December 31, 2017	\$ 2,422,796	\$ -	\$ -	\$ 2,422,796	\$ 620,143
Balance as of January 1, 2018	\$ 2,422,796	\$ -	\$ -	\$ 2,422,796	\$ -
Fair value of derivative liabilities on issuance date	-	9,764,246	6,088,652	15,852,898	-
Change in fair value of derivative liabilities	1,240,687	(621,945)	(184,325)	434,417	434,417
Conversion to Series A Preferred Shares	(3,663,483)	-	-	(3,663,483)	-
Balance as of December 31, 2018	\$ -	\$ 9,142,301	\$ 5,904,327	\$ 15,046,628	\$ 434,417

(a) Senior/Junior Convertible Notes

The Senior Notes principal and accrued interest were convertible at the election of the noteholder or upon a qualified equity financing of \$5,000,000 with a valuation cap of \$25,000,000.

The Junior Notes principal and accrued interest were convertible at election of the noteholder or upon a qualified equity financing of \$5,000,000 with a valuation cap of \$50,000,000.

Upon a qualified equity financing, the Senior Note would be automatically converted into that number of shares of certain qualified equity securities under the Senior Note (the "Qualified Equity Securities") equal to (x) the amount of then-outstanding principal and accrued interest under the Senior Note, divided by (y) seventy five percent (75%) of the lowest price-per-share of the Qualified Equity Securities at which such Qualified Equity Securities are sold to the purchasers in such Qualified Equity Financing. The Junior Note would convert similarly, except that that conversion would be at eighty (80%) of the lowest price-per-share.

The fair value of the conversion feature of the Senior Note and Junior Note was determined using the intrinsic valuation method, utilizing an equity discount rate of 20% and the probability of the occurrence of a qualified equity financing event. For the years ended December 31, 2018 and 2017, the Company recognized an increase in fair value of the derivative related to the conversion feature of \$434,417 and \$620,143, respectively.

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As of October 30, 2018, November 16, 2018 and December 17, 2018, 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:

	<u>At Issuance</u>	<u>December 31, 2018</u>
Risk-Free Interest Rate	3.5 %	3.5 %
Exercise Price	\$ 5.16 - 5.26	\$ 5.06
Stock Price	\$ 4.33 - 4.71	\$ 4.43
Expected Volatility	88.33% - 103.67 %	83.79% - 104.82 %
Expected Life (in years)	0.37 - 1.50	0.33 - 1.33
Expected Interest	12 %	12 %
Fair Value:	<u>\$ 9,764,246</u>	<u>\$ 9,142,301</u>

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 year ended December 31, 2018, the Company recognized a decrease in fair value of the derivative related to the conversion feature of \$621,945.

(c) Warrant Derivative Liability

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

	<u>At Issuance</u>	<u>December 31, 2018</u>
Risk-Free Interest Rate	3.5 %	3.5 %
Exercise Price	\$ 6.43 - 6.51	\$ 6.31
Stock Price	\$ 4.33 - 4.71	\$ 4.43
Expected Volatility	88.33% - 103.67 %	83.79% - 104.82 %
Expected Life (in years)	0.37 - 1.50	0.33 - 1.33
Expected Interest	12 %	12 %
Fair Value:	<u>\$ 6,088,652</u>	<u>\$ 5,904,327</u>

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.

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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 year ended December 31, 2018, the Company recognized a decrease in the fair value of the derivative related to the warrants of \$184,325. As discussed in Note 9 above, the Company issued warrants to brokers as part of the Series B Debenture Unit Offerings. These brokers warrants were valued using the Black-Scholes Merton model using an expected term of three years. The total value calculated by the Company and recorded in Shareholders' Equity (Deficit) for the year ended December 31, 2018 was \$350,060.

11. 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 which includes of 6,250,000 shares of Series A-1 Preferred Stock and 6,250,000 shares of Series A-2 Preferred Stock (the "Series A-2 Shares").

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:

	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	-	-	1,862,372	-	-	-
Balance, December 31, 2017	-	-	2,362,372	-	-	-
Conversion of Common Stock to Series A Common	-	-	(2,362,372)	2,362,372	-	-
Conversion of Junior and Senior Notes	4,924,701	1,422	-	-	-	-
Issuance of Series A-1 Preferred	1,325,299	-	-	-	-	-
LMS Issuance	-	-	-	-	11,156,626	-
Issuance in lieu of Series B Convertible Debentures interest payment	-	-	-	-	86,638	-
Exercise of options	-	-	-	2,084,375	-	-
Balance, December 31, 2018	6,250,000	1,422	-	4,446,747	11,243,264	-

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As at December 31, 2018, the Company had the following shares issued and outstanding:

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

The Series A-1 Preferred Stock is a class of voting preferred stock, one (1) vote per Series A-1 Share, with certain anti-dilution rights for the purpose of protecting from any lower valued financing rounds certain liquidation preferences in case of an unqualified merger or sale, and redemption rights accruing on April 30, 2023. It accrues dividends at 8% per annum from the date of issuance, whether declared or not, 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 Series A-1 Share plus accrued dividends or the Fair Market Value as of the unqualified merger or sale or on the redemption date. 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 Shares are convertible into additional Series B Common Shares in an amount equal to the percentage obtained by dividing the accrued dividend on such shares by the original Series A-1 Share issue price. This class of stock was issued in the FLRish, Inc. Series A Offering and upon conversion of the Senior Note, Junior Note and the Murray Field Note.

The 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 the Company has the authority to set the rights, privileges, preferences and obligations of any wholly unissued series of preferred stock.

(b) Series A Common Stock

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.

At December 31, 2018, 4,446,747 shares of Series A Common Stock, at no par value, were outstanding. At December 31, 2017, 2,362,372 shares of Series A Common Stock were outstanding.

(c) Series B and Series C Common Stock

Series B common stock of FLRish, Inc. (the "Series B Common Stock") is a class of common equity that possessed one (1) voting right per Series B Common Share.

At December 31, 2018, 11,243,264 Series B Common Shares, at no par value, were outstanding. As of December 31, 2018, there were 1,204,819 shares in escrow in connection with the

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contemplated PMACC merger option. There were no shares of Series C Common Stock outstanding and no shares of Series C Common Stock were reserved for issuance.

On December 31, 2018, an aggregate of 86,638 Series B Common Shares valued at \$407,881 were issued to holders of Debentures in satisfaction of the payment of accrued interest.

Series C Common Stock of FLRish, Inc. is a class of non-voting common stock. No shares of Series C Common Stock had been issued as of December 31, 2018.

(d) Merger of Savature, Inc. with FLRish Farms, LLC

On April 29, 2018, FLRish Farms, LLC (“FLRish Farms”), a wholly owned subsidiary of the Company and Linnaeus Management Services, LLC (“LMS”) merged LMS’s 31.5% interest in Savature LLC, Savaca LLC, FFC1 LLC and FLRish Farms Cultivation LLC, into FLRish Farms in exchange for 11,156,626 shares of Series B Common Stock of the Company, thereby eliminating the non-controlling interest of \$9,139,504, net of distribution received by LMS of \$400,000. 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.

Subsequent to the merger, FLRish Farms, LLC was converted to FLRish Farms, Inc. and Savature, LLC converted to Savature, Inc. This transaction was structured as a reverse triangular merger in which FLRish Farms merged into Savature, Inc., the surviving entity.

12. WARRANTS

The activity for warrants outstanding for the year ended December 31, 2018, is summarized as follows:

	Number of Warrants #	Weighted Avg. Exercise Price per share CAD \$	Weighted Avg. Exercise Price per share \$
Balance December 31, 2017	-	-	-
Series B Warrants issued	3,775,974	8.60	6.45
Broker Warrants issued	168,303	6.90	4.15
Advisory Warrants issued	143,241	6.90	4.15
Expired or cancelled	-	-	-
Balance December 31, 2018	4,087,518	8.47	6.27

Each Series B Warrant is exercisable into one Underlying Share at a price of \$6.45 per share (CAD \$8.60) until October 30, 2020, subject to adjustment and/or acceleration in certain circumstances. The Series B Warrants are governed by a warrant indenture dated 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 (Note 10(c)).

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In conjunction with the issuance of the Series B Debenture Units, each Broker Warrant and Advisory Warrant (as defined below) is exercisable into one Underlying Share at an exercise price of \$4.15 (CAD \$6.90) per share until the earlier of 60 months from October 30, 2018, and 24 months from the completion of a Going Public Transaction (Note 24(a)), 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 \$350,060 that vested upon issuance and were recorded as debt issuance costs and 143,241 advisory warrants (the “Advisory Warrants”) issued to FMI Capital Advisory Inc. (“FMICAI”), at a value of \$282,668 that vested upon issuance and were recorded as consulting expenses in the amended and restated consolidated statement of operations for the year ended December 31, 2018.

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:

	2018
Valuation date share price	<u>\$4.33 - \$4.71</u>
Exercise price	\$5.23
Expected life	3 years
Cumulative volatility	75%
Dividend rate	0%
Risk-free interest rate	<u>2.83% - 2.9%</u>

The risk-free rate was based on Bank of Canada zero coupon bond with a remaining term equal to the expected life of the options. The expected lives were based on the average of expected terms when the Company would go public. The expected dividend yield was zero. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have public trading and volatility history prior to the Company going public.

13. 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.

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The activity for stock options outstanding for the years ended December 31, 2018 and 2017 is summarized as follows:

	Number of Options	Weighted Avg. Exercise Price per share
Balance December 31, 2016	8,410,357	0.052
Issuance of new options	1,245,000	0.050
Issuance of new options	27,375	4.150
Exercised	(1,862,372)	0.051
Expired or cancelled	(2,203,125)	0.054
Balance December 31, 2017	5,617,235	0.071
Issuance of new options	1,611,500	4.150
Issuance of new options	265,000	0.050
Issuance of new options	10,000	5.310
Exercise of stock options	(2,084,375)	0.050
Expired	(206,416)	0.240
Balance December 31, 2018	5,212,944	1.343

During the years ended December 31, 2018 and 2017, the Company recorded aggregate share-based compensation expense of \$4,054,812 and \$94,239, respectively, for all stock options vesting during the year. During the years ended December 31, 2018 and 2017, the Company received cash consideration of \$99,218 and \$100,899, respectively, for the exercise of 2,084,375 and 1,862,372 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 years ended December 31, 2018 and 2017, using the following assumptions:

	<u>2018</u>	<u>2017</u>
Valuation date share price	\$3.74 - \$4.71	\$0.05
Exercise price	\$0.05 - \$5.31	\$0.05 - \$4.15
Expected life	2.50 - 7.51 years	5.00 - 7.00 years
Cumulative volatility	100%	100%
Dividend rate	0%	0%
Risk-free interest rate	2.03% - 2.47%	1.09% - 1.94%

The risk-free rate was based on Bank of Canada zero coupon bond with a remaining term equal to the expected life of the options. The expected lives were based on the average of vesting periods and contractual expiration terms. The expected dividend yield was zero. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have public trading and volatility history prior to the Company going public.

FLRISH, INC.**Notes to Amended and Restated Consolidated Financial Statements****For the Years Ended December 31, 2018 and 2017***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***(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 24 months from the date of grant.

The fair value on the grant date of the RSAs was measured at \$2,614,000 (or \$3.40 per RSA), using a Monte Carlo simulation model taking into account the fair value of the Company’s stock on the date of grant and into the future encompassing a wide range of assumptions and possible future market conditions. During the year ended December 31, 2018, the Company recorded share-based compensation of \$1,804,838 in relation to the vesting of the RSAs.

14. INCOME TAXES

The income tax provision consists of the following for the years ended December 31, 2018 and 2017:

	Restated	
	2018	2017
Current tax expense (recovery)	\$ 142,742	\$ 10,400
Deferred tax expense (recovery)	-	-
Total Tax Provision	<u>\$ 142,742</u>	<u>\$ 10,400</u>

Deferred tax assets have not been recognized in respect of the following deductible temporary differences because it is not probable that future taxable profit will be available against which the Company can use the benefits:

	2018	2017
Capital Losses	\$ 1,137,574	\$ 1,137,574
Non-Capital Loss CF - US	4,783,302	4,520,015
Amortization	292,896	314,716
Accrued Interest	629,474	134,335
Discount on Note Receivable - PMACC	1,890,570	1,575,848
Charitable Contribution Carryover	5,174	4,024
Stock Options Expense/NQSO	23,491	23,491
Interest Not Deductible - Section 163(j)	933,340	-
Other Expenditures Not Deductible	179,234	419,311
	<u>9,875,055</u>	<u>8,129,314</u>

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The non-capital loss carryforwards expire as noted in the below table. Capital loss carryforwards expire in 2022 and can only be used to reduce capital gains. Charitable contributions will begin to expire in 2022, while start-up costs will be fully amortized in 2031. The remaining deductible temporary differences may be carried forward indefinitely.

As of December 31, 2018 and 2017, the Company had federal and state net operating loss carryforwards of approximately \$4,444,330 and \$4,520,015, respectively. The net operating loss carryforwards will begin to expire in the years ending December 31, 2035 through 2038 if not utilized as follows:

As at December 31,

2035	\$	793,851
2036		2,762,686
2037		1,226,766
	\$	4,783,303

The statute of limitations on tax returns for the Internal Revenue Service and California Franchise Tax Board are three and four years, respectively. Net operating losses remain open for examination beyond these statute of limitations for both the Internal Revenue Service and California Franchise Tax Board.

Utilization of net operating loss carryforwards may be subject to limitations in the event of a change in ownership as defined under U.S. IRC §382, and similar state provisions. An “ownership change” is generally defined as a cumulative change in the ownership interest of significant stockholders over a three-year period of more than 50 percentage points. The Company believes a change in ownership, as defined by U.S. IRC §382, has occurred. This will limit the Company’s ability to reduce future income by net operating loss carryforwards. A formal §382 study has not been prepared, so the exact effects of the ownership change are not known at this time.

The provision for income taxes differs from the amount of income tax determined by applying the U.S. federal income tax rate of 21% to pre-tax income for the current tax provision and deferred tax assets and liabilities. The difference between the statutory tax rate multiplied by the pretax earnings and the tax provision of \$142,742 is a result of permanent differences (expenses not deductible for US tax), true-up of deferred tax assets and liabilities, and changes in the recognition of deferred tax assets.

15. 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

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During 2018 and 2017, the Company provided contract management services to and leased land and buildings to PMACC (Notes 16 and 17). The Company and PMACC share key management personnel. For the years ended December 31, 2018 and 2017, the Company derived the entirety of its revenue from PMACC.

At December 31, 2018 and 2017, the Company had accounts receivable balances with PMACC in the amount of \$22,147,570 and \$9,641,424, respectively. The outstanding accounts receivable balances due from PMACC are unsecured and expected to be settled with cash.

In December 2017, the Company sold 50% of its interests in a cannabis license located in San Leandro, California to PMACC for a purchase price of \$3,000,000. 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 of the principal and accrued interest is payable in a balloon payment totaling \$3,520,064 due December 25, 2025. Due to the interest rate being below market, the Company recorded a discount in the amount of \$1,580,359 on the note receivable, based on an annual rate of 12%. The discount is amortized on an effective interest method. As a result, the net gain on the sale of investment was \$919,641 at December 31, 2017. At December 31, 2018 and 2017, the note had principal outstanding of \$2,729,231 and \$3,055,000, accrued interest of \$61,542 and \$0, and discount of \$1,340,296 and \$1,575,847, respectively.

On October 29, 2018, the Company loaned \$4,000,000 to PMACC by way of a promissory note bearing interest at a rate of 12%. All principal and accrued interest is payable in a balloon payment due October 29, 2019. At December 31, 2018, the note had principal outstanding of \$4,000,000 and accrued interest of \$57,400.

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 (Note 5).

Lineage Grow Company

On November 16, 2018, the Company issued a promissory note to Lineage Grow Company Ltd. ("Lineage") 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 December 31, 2018, the note had principal outstanding of \$1,515,266 and accrued interest of \$23,203 (Note 24(d)).

Compensation

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors.

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Compensation of key management personnel for the years ended December 31 was as follows:

	<u>2018</u>	<u>2017</u>
Short-term Employee Benefits, including Salaries and Director Fees	\$ 1,544,726	\$ 1,611,945
Share-based Compensation - Directors and Executives	3,235,261	57,986
Total	<u>\$ 4,779,987</u>	<u>\$ 1,669,931</u>

16. RENTAL REVENUE - RELATED PARTY

The Company leases cultivation facilities, buildings, and improvements to PMACC (Note 15). 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 footage is delivered.

For the years ended December 31, 2018 and 2017, total rental revenue was \$4,397,275 and \$2,086,822, respectively. Future minimum rental payments due under the lease are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Amount</u>
2019	\$ 8,764,110
2020	9,288,449
2021	9,501,142
2022	4,007,745
	<u>\$ 31,561,446</u>

17. SERVICES REVENUE - RELATED PARTY

On July 1, 2016, the Company, through its subsidiary FLRish Retail Management & Security Services, LLC, entered into retail management service agreements (the "Retail MSAs") to provide services regarding the processing, retailing and dispensing of cannabis, cannabis infused products, and related products and educational materials in connection with PMACC operations (the "RMCO Contract"). The RMCO Contract has a term of five years and shall renew automatically for two additional five-year periods unless on or before the date of renewal the Company or the clients determine, in their sole discretion, that the agreements shall not renew.

Fees for services rendered pursuant to the Retail MSAs are payable monthly and are equal to 15% of dispensary gross revenues, plus reimbursement of expenses incurred on behalf of the Company's

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dispensaries. For the years ended December 31, 2018 and 2017, the Company recognized contract services revenue related to the RMCO Contract of \$5,757,731 and \$6,801,312, respectively.

Savature, Inc. also entered into a cultivation management service agreement with PMACC (the “Farm MSA”) in September 2016. The agreement has a six-year term and automatically renews for an additional five-year term unless the parties mutually agree not to extend the term. The Farm MSA stipulates that PMACC is to reimburse the Company, at cost, for all expenses related to the management services provided (the “Reimbursable Expenses”). The Company recognized revenue related to reimbursements of \$8,084,912 and \$4,849,174 for the years ended December 31, 2018 and 2017, respectively. Fees for administrative services rendered by the Company are equal to 20% of PMACC’s Reimbursable Expenses and are payable monthly. For the years ended December 31, 2018 and 2017, the Company recognized administrative services revenue of \$1,220,308 and \$0, respectively. The Farm MSA also provides for fees to be paid by PMACC to the Company based upon the sales performance of products produced under the contract (“MSA Fees”). The Company records Farm MSA Fees received under this agreement as contract services revenue. For the years ended December 31, 2018 and 2017, the Company recognized MSA Fees revenue of \$1,872,594 and \$944,702, respectively.

18. IMPAIRMENT LOSS

The Company began investing in the development of a property in Oakland, California (the “Cannery”) in the last quarter of 2015. In the second quarter of 2017, the Company decided to exit the Cannery project due to increasing capital costs and limited paths to recapture investment in capital improvements. On May 2, 2017, the Company and 5733 San Leandro, LP, the landlord, entered into a lease termination agreement that waived any further rights against the Company in exchange for a mutual waiver and the forfeiting of any deposits. In conclusion with the lease termination, the Company wrote off its investments in the Cannery resulting in an impairment loss in the amount of \$3,637,574 during the year ended December 31, 2017.

19. GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended December 31, 2018 and 2017, general and administrative expenses were comprised of:

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	<u>2018</u>	<u>2017</u>
Bad debt expense/(recoveries)	\$ (483,099)	\$ -
Banking and processing fees	20,894	459
Other general administrative	45,740	42,869
Office and general expenses	994,964	680,249
Salaries and benefits	6,285,580	5,789,330
Taxes and licenses	1,439,169	1,470,527
Travel and entertainment	218,350	265,981
	<u>\$ 8,521,598</u>	<u>\$ 8,249,415</u>

20. CONCENTRATIONS AND RISKS

(a) Market

The Company's operations are currently limited to providing services to cannabis operators 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.

(b) Customers

For the years ended December 31, 2018 and 2017, the Company derived all contract and rental revenue from one customer, PMACC, a related-party (Note 15). 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 for retail distribution and cultivation that expired 120 days after issuance. 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 any products that would be non-compliant under the new regulations prior to the effective date of the new regulations. Any unsold non-compliant products remaining after the effective date were required to be destroyed. Due to the additional testing regulations that became 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 has subsequently stabilized.

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Although the possession, cultivation and distribution of cannabis for medical and adult use is permitted in California, cannabis 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 cannabis preempts state laws that legalize its use, strict enforcement of federal law regarding cannabis would likely result in the inability for the Company to proceed with its business plan, especially with respect to managing the cannabis cultivation, production and dispensaries of its clients. In addition, the Company's assets, including real estate property, cash, equipment and other goods, could be subject to asset forfeiture because cannabis is still federally illegal. While management believes that the Company is in compliance with applicable local and state regulation as at December 31, 2018, 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.

21. 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 February 2018, a former employee of the Company filed suit against the Company and various officers and directors. This matter was settled on July 11, 2018, for a payment of \$154,000 which was charged to General and Administrative Expense.

In May 2018, a former CEO of the Company issued a demand for arbitration to the Company. The Company asserted its own claims against the former employee. On July 5, 2019, the parties resolved any and all claims by entering into a settlement agreement wherein the Company agreed to pay the former CEO \$125,000 and further agreed to allow the former CEO to exercise his right to purchase 625,000 subordinate voting shares of Harborside, Inc. ("Harborside"), the resulting entity of the RTO Transaction (as defined below).

In June 2018, an employee asserted claims against PMACC alleging six causes of action. The employee is claiming damages of \$1,250,000. The claims currently remain in pretrial discovery phase, with a case management conference scheduled for August 24, 2020. The Company believes that the facts and causes of action alleged by the employee are without merit and the Company has meritorious defenses to the alleged causes of action.

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

(b) Employment Agreements

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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.

(c) 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 terminated on June 30, 2020.

(d) FMI Agreements

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

On December 3, 2018, FMICAI and FLRish entered into an advisory agreement whereby FMICAI would provide 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 FMICAI pursuant to the agreement, FMICAI is entitled to cash fees equal to an aggregate of \$732,970 (CAD \$1,000,000) and 143,241 Advisory Warrants (Note 12). At December 31, 2018, the Company had paid cash fees of \$477,309 and issued the Advisory Warrants.

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

(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 financial assets and liabilities 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;

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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.

December 31, 2018	Category	Level 1 - \$	Level 2 - \$	Level 3 - \$	Total - \$
Series-A Preferred Stock	FVTPL	\$ -	\$ -	\$ 28,359,357	\$ 28,359,357
Series B Convertible Debentures	FVTPL	\$ -	\$ -	\$ 16,036,285	\$ 16,036,285
Derivative Liabilities	FVTPL	\$ -	\$ -	\$ 15,046,628	\$ 15,046,628
Total		\$ -	\$ -	\$ 59,442,270	\$ 59,442,270

For December 31, 2017, the Company has Derivative Liabilities of \$2,422,796, which are measured through FVTPL using Level 3 inputs.

The Company's management determines 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 Debentures and the Series B Warrants was valued using a Monte Carlo simulation model to estimate their value as of the date of issuance, and as of December 31, 2018. The most significant assumption used in the valuation was the expected volatility of the Company's shares.

The Series-A Preferred Stock valuation was performed by deriving the enterprise value and the Series A Preferred Stock value from the 2018 Series B Convertible Debenture Offerings and performing a roll-forward analysis from October 30, 2018 to the January 7, 2019 valuation date. The valuation was performed utilizing the Hybrid Method, a blend of the Probability-Weighted Expected Return Method ("PWERM") and an option pricing model ("OPM").

The conversion feature of the Senior Note and Junior Note was valued using the intrinsic valuation based on the probability of a qualified financing event.

(b) Risk Management

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

(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 risks arise from a range of factors that might include changing economic and political circumstances, regulatory approvals and competitor actions.

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(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 is either used in the course of conducting such business, or is 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.

(e) Banking Risk

Notwithstanding that a majority of states have legalized medical cannabis, 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 cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses either directly or indirectly involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty accessing the U.S. banking system and traditional financing sources.

(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 December 31, 2018 and 2017, the carrying amount of cash was \$14,762,661 and \$1,490,612, respectively, accounts receivable was \$22,147,570 and \$9,641,424, respectively, and notes receivable was \$7,046,346 and \$2,479,227, respectively.

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 15). 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 \$0 at December 31, 2018 and 2017.

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As of December 31, 2018, and 2017, the Company's aging of the gross value of its accounts receivable was as follows:

	2018		2017
0-60 days	\$ 4,024,633	\$	7,546,475
61+ day	18,122,937		2,094,949
	\$ 22,147,570	\$	9,641,424

(h) 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 its capital requirements on an ongoing basis. At December 31, 2018 and 2017, the Company had cash of \$14,762,661 and \$1,490,612, respectively, and working capital of \$30,071,940 and working deficit of \$5,870,982, 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 21, the Company has the following contractual obligations as of December 31, 2018:

	Total	< 1 year	1 - 3 years	4 - 5 years	> 5 years
Accounts payable and accrued liabilities	\$ 4,980,133	\$ 4,980,133	\$ -	\$ -	\$ -
Notes payable and accrued interest	1,780,000	1,780,000	-	-	-
Series A Preferred liability	28,359,357	-	28,359,357	-	-
Convertible debentures	16,036,285	-	16,036,285	-	-
Financing arrangement	16,655,674	817,200	2,678,610	1,952,196	11,207,668
	\$ 67,811,449	\$ 7,577,333	\$ 47,074,252	\$ 1,952,196	\$ 11,207,668

The liquidity table above includes the minimum payments required for the financing arrangement included in Notes Payable and accrued interest. These payments are applied to interest with a balloon payment made at the end of the agreement. Refer to Note 8 for further information.

(i) 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 December 31, 2018:

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Financial Assets

Cash	\$	2,281,501
	\$	2,281,501

Financial Liabilities

Convertible Debentures	\$	16,036,285
Derivative Liabilities		15,046,628
	\$	31,082,913

(j) Series-A Preferred Stock Fair Value Option

On April 30, 2018, the Company issued 1,325,299 Series A-1 Shares to various parties in exchange for aggregate gross proceeds of \$5,500,000. As a result of the Series A Offering, \$12,304,398 in convertible promissory notes and accrued interest thereon, plus \$3,663,482 representing the fair value of the derivative liability of the conversion feature of such notes were converted into 4,924,701 Series A-1 Shares and 1,422 Series A-2 Shares. The Company had recorded a loss of \$4,475,565 related to the conversion in the consolidated statements of operations in 2018. The Company had also recorded \$292,119 in share issuance costs for expenses incurred related to the Series A Offering.

The Preferred Stock is a compound financial instrument containing a derivative liability for the conversion option, redemption option and rights on liquidation, and dividend rights with the remainder of the instrument being an equity instrument, representing the holder's voting rights. As such, the Company has elected to designate the entire instrument as a financial liability measured at fair value through profit or loss from the initial recognition date in accordance with IFRS 9.

The Preferred Stock was issued at \$4.15 on April 30, 2018. The Company concluded that the actual cash price paid by the investors represents the fair value of the Preferred Stock on the date of issuance.

As at December 31, 2018, the Company estimated the fair value of the Preferred Stock using a Hybrid Method, a blend of the PWERM and an OPM primarily based on the Series B Debenture Unit Offering rolled forward to December 31, 2018. Under the Hybrid Method, the valuation specialists used the following assumptions:

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Probability Weighted Expected Return Method Assumptions		Option Pricing Model Assumptions	
Probability Weighting	60%	Probability Weighting	40%
Implied exit Values (USD mm)	IPO-Early - \$110-\$190 IPO-Mid - \$150-\$285 IPO-Late - \$175-\$365	Volatility	83.2%
IPO - Early	50%	Risk Free Rate	2.5%
IPO - Mid	25%	Expected Life	2.8 years
IPO - Late	25%	Implied Enterprise Value (USD mm)	66.7
		Dividend Yield	0%

USD mm = USD million

As part of such fair valuation, the Company evaluated the change in value of the Preferred Stock attributable to changes in the Company's credit risk. The analysis included a review of capital structures in the cannabis industry as well as the actual capital structure of Company. Based on such analyses, the Company determined that there were no changes to the Preferred Stock attributable to credit risk change.

The fair value of the Preferred Stock on December 31, 2018 was \$ 4.54 per share, resulting in an increase to the Series-A Preferred Stock in the amount of \$2,415,913. The change in the fair value was recognized under "Fair Value Adjustments" in the consolidated statements of operations.

Fair value changes consider exit price as of the measurement period to include dividends and market participant expectations. Therefore, accrued dividends are already considered in determining the fair value of the instrument as of December 31, 2018. Accordingly, no accrued dividends were recorded in the financial statements as of December 31, 2018.

As of December 31, 2018, 6,250,000 Series A-1 Shares, at no par value, were issued and outstanding and no Series A-1 Shares were reserved for issuance. 1,422 Series A-2 Shares were issued and outstanding and no Series A-2 Shares reserved for issuance. No Series A-1 Shares or Series A-2 Shares were issued or outstanding at December 31, 2017. The Series A-1 Shares and Series A-2 Shares were classified as liabilities.

23. 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.

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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 years ended December 31, 2018 and 2017.

24. 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) Reverse Take Over

On February 8, 2019, FLRish, Lineage and Lineage Merger Sub Inc., a wholly owned subsidiary of Lineage, entered into a merger agreement (the "Merger Agreement") in connection with a reverse takeover transaction between the parties (the "RTO Transaction").

On May 30, 2019, FLRish and Lineage completed the RTO Transaction, providing for the acquisition by Lineage of all of the issued and outstanding common shares of FLRish, by way of a "three-cornered" merger, whereby FLRish became a wholly-owned subsidiary of Lineage. The RTO Transaction resulted in the former shareholders of FLRish holding a majority of the outstanding share capital and assuming control of Lineage, and Lineage changed its name to Harborside Inc. The RTO Transaction was a reverse acquisition and has been accounted for as a capital transaction with FLRish being identified as the accounting acquirer.

Immediately prior to the RTO Transaction, Lineage completed the consolidation of its common shares on the basis of approximately 41.82 common shares into one new common share, which were then reclassified as post-consolidation Subordinate Voting Shares ("SVS") of Harborside. A new class of Multiple Voting Share ("MVS") of Harborside was also created. Holders of shares of FLRish received MVS, SVS, or a combination thereof, for each share of FLRish outstanding immediately prior to completion of the RTO Transaction.

(b) Share Capital Transactions

On May 17, 2019, FLRish completed a brokered private placement offering (the "Brokered Concurrent Offering") of 2,508,434 subscription receipts (the "Subscription Receipts") at the price of CAD \$7.00 per Subscription Receipt for gross proceeds of \$13,358,976 (CAD \$17,559,038). In addition, FLRish completed a concurrent non-brokered offering of 298,547 subscription receipts for gross proceeds of \$1,589,949 (CAD \$2,089,829) on the same terms as the Brokered Concurrent Offering (together with the Brokered Concurrent Offering, the "Concurrent Offering"). The aggregate gross proceeds of the Concurrent Offering were approximately USD\$14,948,925 (CAD \$19,648,867).

Each Subscription Receipt automatically converted into one share of FLRish series D common stock (each, an "SR Share") and one warrant (each, an "SR Warrant") to purchase an SR Share immediately prior to and in connection with the completion of the RTO Transaction, without payment of any additional consideration and with no further action on the part of the holder. On

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closing of the RTO Transaction, each SR Share and Series D Warrant issued on conversion of the Subscription Receipts was immediately exchanged for equivalent securities of Harborside, being one SVS and one warrant to purchase an SVS.

On May 24, 2019, prior to closing of the RTO Transaction, Lineage declared and paid a stock dividend to the holders of the Lineage common shares as of May 23, 2019 through the issuance of 44,775,010 series A special shares of Lineage (the "Series A Special Shares"), 11,513,533 series B special shares of Lineage (the "Series B Special Shares") and 14,072,120 series C special shares of Lineage (the "Series C Special Shares"). All Series A Special Shares were automatically converted into Lineage common shares upon the completion of the RTO Transaction, without payment of additional consideration or any further action from the holder. The Lineage common shares were consolidated and re-designated as a total of 1,070,669 SVS upon closing the RTO Transaction.

The \$14,565,764 total consideration paid for Lineage is comprised of the following components that were measured at the estimated fair value on the date of closing of the RTO Transaction:

- 2,887,780 SVS, having an estimated fair value of \$11,016,549 based on the fair value of shares issued through the Concurrent Offering on May 17, 2019.
- 134,232 options to acquire SVS, having an estimated fair value of \$128,305 determined based on a Black Scholes option pricing model which incorporated the following assumptions: implied share price – \$3.81 (CAD \$5.15) per share based on the Concurrent Offering, consolidation-adjusted exercise price of \$3.10 to \$7.74 (CAD \$4.18 to \$10.45), expected dividend yield – 0%, expected volatility – 90%, risk-free interest rate – 1.47% to 1.52% and expected life of 2.54 to 4.55 years. In making the assumptions for expected volatility, Harborside used the estimated average volatility of comparable companies in the cannabis industry.
- 308,662 warrants to acquire SVS, having an estimated fair value of \$94,186 determined based on a Black Scholes option pricing model having the following assumptions: implied share price - \$3.81 (CAD \$5.15) per share, consolidation-adjusted exercise price of \$7.74 to \$10.07 (CAD \$10.45 to \$13.59), expected dividend yield - 0%, expected volatility - 90%, risk-free interest rate - 1.71% and an expected life of 0.65 to 0.72 years. In making the assumptions for expected volatility, Harborside used the estimated average volatility of the cannabis industry.
- The effective settlement of a bridge loan payable to Harborside by Lineage of \$1,576,342.
- Contingent consideration in the amount of \$1,750,386 related to a stock dividend declared by Lineage to the holders of its common shares (the "Lineage Common Shares") as at the record date of May 23, 2019, through the issuance of 44,775,010 Series A Special Shares, 11,513,533 Series B Special Shares and 14,072,120 Series C Special Shares. Pursuant to the Merger Agreement between Harborside, Inc., FLRish, Inc., and

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Lineage Merger Sub, Inc., entered into on February 8, 2019 and as amended on April 17, 2019, the Series B Special Shares would be automatically converted into one Lineage Common Share upon the completion of the acquisition by the Company of Lucrum Enterprises Inc., d/b/a LUX Cannabis Dispensary (the “LUX Acquisition”). Similarly, the Series C Special Shares would be converted into one Lineage Common Share upon the completion of the acquisition of Walnut Oaks, LLC d/b/a Agris Farm (the “Agris Acquisition”). In both instances, the conversion would not require the payment of additional consideration or any further action from the holder. If the LUX Acquisition was terminated by the Company other than for failure to receive regulatory approval prior to the 180th day after the completion of the RTO Transaction or the discovery of an undisclosed material adverse effect of at least 10% of the total applicable purchase price or the amount of the consideration for the purchase in excess of the amounts set forth in the Merger Agreement, each Series B Special Share will be automatically converted to one Lineage Common Share on the date of the termination of the acquisition. If the Agris Acquisition was terminated other than for the same aforementioned reasons, each Series C Special Share will be automatically converted to one Lineage Common Share on the date of the termination of the acquisition. Both Series B Special Shares and C Special Shares have an automatic redemption clause (price of C\$0.000001) that will be triggered unless all of the Series B Special Shares and C Special Shares have otherwise been converted on or prior to 180 days from the closing of the RTO Transaction.

The contingent consideration was valued at \$5.15 per share based on based on the Concurrent Offering, and management applied a 75% probability assessment of the LUX Acquisition and Agris Acquisition closing as of the time of the RTO Transaction.

As of December 31, 2019, Harborside had not completed either of the acquisitions. The time limit of 180 days since the RTO Transaction for the automatic redemption clause lapsed as of November 26, 2019. As the time period of 180 days had lapsed, the Series B Special Shares and Series C Special Shares are considered to have been automatically redeemed and cancelled at a redemption price of C\$0.000001 per share. Per IFRS 3, contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.

On May 30, 2019, the Company paid a stock success fee of CAD \$2,925,622 to FMICAI which was satisfied by the issuance of 417,949 shares of Series D Common Stock of FLRish immediately prior to the completion of the RTO Transaction. The aforementioned shares of Series D Common Stock were exchanged for 417,949 SVS of Harborside upon completion of the RTO Transaction. The SVS were valued at \$2,166,967, based on the amount of stock success fee as disclosed above.

On May 30, 2019, Harborside paid M&A advisory fees to FMICAI by the issuance of 22,236 SVS. The SVS were valued at \$85,512, based on Harborside’s Concurrent Offering price. The fair value of these SVS was expensed as share-based payments in the unaudited condensed interim consolidated statements of loss and comprehensive loss for the quarter ended June 30, 2019.

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Immediately prior to the RTO Transaction, the Series B Convertible Debenture Units including accrued interest in the amount of \$24,830,637 (consisting of the outstanding amortized cost of \$20,884,175 and \$3,946,462 representing the fair value of the conversion feature) was converted, pursuant to their terms, into Underlying Shares. Each Underlying Share was exchanged for 1/100 of an MVS upon the closing of the RTO Transaction. The Series B Warrants were outstanding as of December 31, 2019.

(c) Acquisition of Airfield Supply Company

On April 23, 2019, FLRish 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 (the “Airfield Transaction”) for a 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.

During the third quarter of 2019, management determined that Harborside would not proceed with the Airfield Transaction, in light of the substantial cash component of the purchase price, which management has determined is not in the best interests of shareholders. As a result, Harborside recorded an impairment loss of \$1 million on a non-refundable deposit in relation to the Airfield Transaction.

(d) Multi-Party Merger Option Agreement

On January 7, 2019, FLRish entered into the Merger Option Agreements with the shareholders of PMACC and SJW providing FLRish with the Merger Options to purchase 100% of the equity interests of PMACC and SJW for 4,051,247 Series B Common Shares plus the assumption of debt owed by PMACC and SJW. Of the \$47,341,150 total consideration paid for PMACC and SJW, \$28,096,698 represents settlement of pre-existing related party liabilities owed by PMACC and SJW to FLRish under previous operating agreements, and the balance was paid in share capital. Pursuant to the terms of the Merger Option Agreements, FLRish had the right to exercise the Merger Options at any time, until the termination date of September 27, 2023. Pursuant to the RTO Transaction with Lineage, Lineage and FLRish agreed to exercise the option relating to PMACC under the Merger Option Agreements to purchase 100% of each of PMACC and SJW after the RTO Transaction. The Merger Option relating to PMACC under the Merger Option Agreements was exercised on June 7, 2019, and Harborside closed the acquisition of PMACC on July 31, 2019. As a result of the exercise of the Merger Option to acquire PMACC, Harborside also indirectly acquired a 50% ownership interest in San Leandro Wellness Solutions, Inc. (“SLWS”).

On October 11, 2019, Harborside acquired the remaining 50% equity interest in SLWS. Of the \$3,770,275 total consideration paid, \$2,028,073 represents settlement of pre-existing related party liabilities owed by SLWS to Harborside for advances paid to finance the construction of the project and the balance of \$1,742,202 was paid in cash. As SLWS was not yet operational (construction was still in progress) at the date of acquisition, the acquisition was accounted for as

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an asset acquisition and the total consideration paid was allocated to the assets acquired and no residual goodwill was recognized.

(e) Severance

A severance agreement with one of the former owners of PMACC and SJW was signed concurrent with the Merger Option Agreements and was effective immediately. The former owner received a severance package of \$600,000 to be paid over 24 months.

(f) Series B Debenture Unit Offering

On February 6, 2019, the Company completed closing the third tranche of the Series B Debenture Unit Offering with the issuance and sale of 2,274 Series B Debenture Units for aggregate gross proceeds of \$1,857,165.

(g) Common Stock Amendment

On May 15, 2019, Harborside filed a Certificate of Amendment to the Amended Articles that created a class of Series D Common Stock and amended the amounts of authorized stock in each Series as follows:

- 11,000,000 shares of Series A Common Stock;
- 35,000,000 shares of Series B Common Stock;
- 15,000,000 shares of Series C Common Stock;
- 30,000,000 shares of Series D Common Stock;
- 6,250,000 shares of Series A-1 Preferred Stock; and
- 6,250,000 shares of Series A-2 Preferred Stock.

As part of the RTO Transactions, the above classes of stock were exchanged for shares of Harborside.

(h) Dispensaries

On February 11, 2020, Harborside opened its retail facility in San Leandro, to operate alongside its medical facility. The new facility offers the same products as Harborside's other existing retail locations, including Harborside's own KEY and Harborside Farms lines of cannabis products.

On April 30, 2020, Harborside discontinued the operations of its retail dispensary in Portland, Oregon due to the results of a strategic review of Harborside's operations to focus on its highest return-on-investment assets, specifically those with potential for revenue growth and profitability within the next 12 months.

(i) Related party transactions

On February 26, 2020, the Board granted consent to FMICAI to transfer 510,200 SVS in the capital of Harborside to certain of FMICAI's officers, directors and employees with an effective

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date of December 31, 2019. The SVS transferred are subject to the provisions of certain lock-up agreements until June 10, 2022.

On April 10, 2020, Harborside entered into a consulting agreement with Black Oak Ventures Ltd. (“Black Oak”) to provide certain investor relations services to Harborside in exchange for cash compensation. A principal of Black Oak is an immediate family member of the Company’s Interim CEO.

(j) Warrants

In 2020, 308,662 warrants which were previously issued to former warrant holders of Lineage as part of the RTO Transaction expired unexercised.

(k) Michael Adams v. Patients Mutual Assistance Collective Corp dba Harborside Health et al.

On or about January 10, 2020, PMACC was served with a complaint filed by plaintiff and putative class representative Mr. Michael Adams. The complaint, filed on January 7, 2020 in Superior Court of the State of California for Alameda County, alleges violations of California Business and Professions Code §17200 with respect to PMACC’s employee wage payment practices, and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Mr. Adams. Harborside believes that the complaint fails to state any claim upon which relief can be granted, and that it has meritorious defenses to the alleged causes of action. The Company further believes that Mr. Adams’ allegations fail to adequately represent the claims of any alleged class of similarly situated plaintiffs. In late April 2020, Harborside filed a demurrer/motion to strike as to plaintiff’s complaint; the Court granted Harborside’s demurrer/motion to strike in part, with leave for the plaintiffs to amend and refile their original complaint. The case otherwise remains in motion practice at present.

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(a) Gia Calhoun v. FLRish, Inc

On January 6, 2020, Harborside was served with a complaint filed by plaintiff and putative class representative Ms. Gia Calhoun. The complaint, filed on December 17, 2019 in the US Federal District Court for the Northern District of California, alleges violations of the Telephone Consumer Protection Act (47 USC §227 et seq.) (the “TCPA”), and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Ms. Calhoun. Harborside believes that the complaint fails to state any claim upon which relief can be granted, and that it has meritorious defenses to the alleged causes of action. Harborside further believes that Ms. Calhoun’s allegations fail to adequately represent the claims of any alleged class of similarly situated plaintiffs. On April 6, 2020, Harborside filed a motion to stay all proceedings in the matter pending a ruling by the US Supreme Court in the case *Barr v. Am. Ass’n of Political Consultants, Inc.*, No. 19-631, concerning the constitutionality of the TCPA. On May 13, 2020, the Court granted Harborside’s motion to stay all proceedings in the matter pending the US Supreme Court’s decision in the *Barr* case. The Court further informed the parties that the Court would be willing to entertain another motion to stay pending the Supreme Court’s granting review on the issue of what constitutes an “automatic telephone dialing system” (“ATDS”) in the *Duguid v. Facebook* petition. On July 6, the Supreme Court ruled on *Barr* and invalidated the government-debt call exception, but severed that provision and did not strike down the entire automated call restriction of the TCPA. With respect to Harborside’s litigation, per the judge’s order the parties filed a joint status report July 13, 2020. On July 17, the parties appeared before the Court for a case management conference. In the interim, the Supreme Court granted review on the issue of what constitutes an ATDS in the *Duguid v. Facebook* petition, and Harborside subsequently proposed that the Court extend the stay until the Supreme Court issues a decision on Facebook’s petition.

At the case management conference on July 17 the Court ruled:

- a. No class-related discovery is permitted
- b. Within the next 90 days, Harborside may take discovery on plaintiff’s DNC claim
- c. Within the next 90 days, plaintiff may take discovery from Harborside and/or SpringBig on the issue of whether an ATDS was used to call Plaintiff. However, the court expressly ruled that the parties may not engage in any expert discovery on the ATDS issue.

The court set another Case Management Conference for Friday, October 16, 2020 and the parties will file another joint status report a week in advance. No trial date has been set and the case remains in the discovery phase.

(l) Mediation with Former Employee

On October 28, 2019, Harborside was contacted by an attorney representing a former employee, who has alleged being subjected to discrimination and retaliation, on the basis of both gender and having the status of a whistleblower with respect to alleged violations of Company policies reported to Company management and has demanded monetary damages in the amount of \$400,000, along with specified equitable relief. Harborside believes that the allegations are false and without merit. The parties have agreed to meet for mediation on August 31, 2020.

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(m) Employment Agreements

Certain of Harborside's employees have employment agreements under which Harborside 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 October 25, 2019, pursuant to the terms of a separation agreement dated October 25, 2019, between Harborside and its former CEO Mr. Andrew Berman (the "Separation Agreement"), the former CEO received a severance package of \$310,000, less all applicable withholdings and deductions, to be paid in equal monthly installments beginning on Harborside's first regularly scheduled payroll date following the date on which the Separation Agreement becomes irrevocable, with the remaining monthly installments paid consistent with Harborside's current payroll practices on regularly scheduled payroll dates thereafter, acceleration of any balance to be paid in a lump sum no later than July 2020. Harborside further agreed to pay the cost of COBRA premiums with respect to Harborside's paid health, dental and vision coverage for Mr. Berman and his dependents for 12 months. Lastly, Harborside agreed to the vesting of all of Mr. Berman's unvested stock options issued through to the last day of employment, and in particular, 534,000 restricted stock options; and 200,000 stock options granted April 25, 2018 in two (2) awards (one for 150,000 stock options and another for 50,000 stock options, both exercisable at a price of \$4.15 per share), of which 112,499.96 have already vested.

(n) IRC 280E Litigation

1) Patients Mutual Assistance Collective Corporation

PMACC is currently involved in two separate tax proceedings. The first, PMACC v. Commissioner, is an appeal to the United States Court of Appeals for the Ninth Circuit of an adverse Tax Court decision that was issued at the end of 2018. In that decision, the Tax Court disallowed PMACC's allocation of certain items of expense to cost of goods sold, holding that they were instead deductions barred by IRC Section 280E. At issue are PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012. The court held that the expenses were ordinary and substantiated business expenses but, because PMACC's business consists of trafficking in a Schedule I controlled substance, the expenses must be disallowed. The Tax Court rejected the assertion of penalties by the Internal Revenue Service ("IRS"), ruling that the unsettled state of the law and the fact that PMACC acted reasonably and in good faith, meant that penalties under IRC 6661(a) would be inappropriate. Based on this, management has not applied penalties in the estimate of provisions owing at period end.

On October 21, 2019, after a review process under Rule 155, the Tax Court determined that PMACC's total liability was \$11,013,237 plus accrued interest. In December 2019, PMACC appealed the Tax Court decision to the United States Court of Appeals for the Ninth Circuit, which is expected to begin hearing the case in 2021.

In a second Tax Court proceeding related to deductions barred by IRC Section 280E, the IRS issued a notice of deficiency asserting that PMACC owes \$16,035,218 in additional taxes and penalties for fiscal 2016. Harborside filed its initial petition in this case to the Tax Court on

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February 13, 2020. This matter is not expected to be heard on its merits for several years, by which time the Ninth Circuit appeal mentioned above will have been decided and presumably dictate the outcome of this proceeding.

2) San Jose Wellness

SJW has two pending Tax Court cases. The first case involves the 2010, 2011, and 2012 tax years, and in this case, the IRS has asserted a tax deficiency of \$2,120,215. The second case involves the 2014 and 2015 tax years. The IRS has asserted in this case that SJW owes an additional \$2,259,528 in tax and penalties. Both of these proceedings involve substantially the same issues as the PMACC cases. The first SJW case has been stayed before the US Tax Court, pending the outcome of the above-described tax cases involving PMACC and the second SJW case is proceeding without trial and briefs are being submitted. Harborside expects that the SJW cases will also be controlled by the outcome of the PMACC Ninth Circuit appeal proceedings.

Management has considered, in consultation with outside counsel, that the final amount to be paid on either matter is uncertain and the timing of any payments arising from these proceedings or any future proceeding exceeds 12 months from the date that these financial statements were authorized to be issued. Harborside believes it will have funds in the future to satisfy any such required cash outflows from its operating cash flow performance and other sources of financing. However, it is possible that Harborside will need to obtain additional capital in order to meet these uncertain cash flow requirements.

(o) Term Loan

On July 26, 2019, the Term Loan was repaid in full. During the 12 months ended December 31, 2019, a total amount of \$1,780,000 was paid to settle the Term Loan.

(p) COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (“COVID-19”) a “Public Health Emergency of International Concern” and on March 10, 2020, declared COVID-19 a pandemic. The pandemic has had far-reaching impacts on every business and every individual globally. For the time being and until economies stabilize, Harborside has shifted its strategic approach and the manner in which it operates its business to continue providing affordable and high quality products to its customers, and ensure that its workplace and stores have appropriate measures put in place to limit social interactions and enforce social distancing measures. At the same time, Harborside has also taken steps to alter its marketing methods, conserve cash, and adjust its overall strategic direction to preserve the health of its business.

On March 25, 2020, Harborside announced the initiatives it had put forth as a response to the impact of the outbreak of the COVID-19 pandemic. Such initiatives aim to allow Harborside to continue offering affordable and high quality products in a safe environment, with additional measures put in place to allow its customers to access its products while limiting social interactions and enforcing social distancing measures throughout its retail stores. These initiatives have allowed Harborside to operate mostly uninterrupted and to implement its business continuity plan. Some of the measures that Harborside initiated included: (i) increasing curbside pick-up

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and/or drive-thru options at all of its retail locations; (ii) expanding home delivery services to customers located in Oakland, San Jose, and the Greater East Bay and Peninsula areas; and (iii) updating its safety and sanitation protocols in-store. Harborside also emphasized its continued efforts to align labor costs with customer demand, cut all non-essential operational expenses, hold off on any non-accretive operational and capital projects, and suspend all non-essential supplier contracts.

As of the issuance of this report, Harborside's operations have not been significantly impacted as cannabis has been deemed an essential service in the states of California and Oregon since March, 2020. At this point, the extent to which COVID-19 may impact Harborside is uncertain; however, it is possible that COVID-19 may have a material adverse effect on Harborside's business, results of operations and financial condition.

(q) Cease Trade Order

On June 8, 2020, the Ontario Securities Commission (the "OSC") issued a cease trade order (the "CTO") which prevents trading in Harborside's SVS. Harborside will apply to the OSC to have the CTO revoked after it has filed: (i) the amended and restated financial statements of FLRish for the years ended December 31, 2017 and 2018; (ii) the annual financial statements and related management's discussion and analysis of Harborside for the year ended December 31, 2019; and (iii) the interim financial report and related management's discussion and analysis of Harborside for the period ended March 31, 2020. Harborside expects trading to resume on the CSE shortly after the revocation of the CTO. While the Company will make the application, there is no assurance that the OSC will grant the revocation order.

Harborside continues to work diligently and expeditiously to complete all outstanding filings.