FLRISH, INC.

UNAUDITED RESTATED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(EXPRESSED IN UNITED STATES DOLLARS)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the unaudited condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of FLRish, Inc. ("FLRish", or the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Amended to include financial information to August 12, 2020 (see Note 2).

FLRISH, INC.
Unaudited Restated Condensed Interim Consolidated Statements of Financial Position
(Expressed in United States Dollars)

		As Restated (see Note 2.1)	
		As at March 31, 2019	**As at December 31, 2018**
	Notes	$	$
Assets			
Current Assets			
Cash and cash equivalents		13,534,335	14,762,661
Accounts receivable, net	5	2,040,733	-
Accounts receivable - related party	22	-	22,147,570
Inventories	6	2,175,293	-
Biological assets	7	1,050,501	-
Prepaid expenses	8	1,280,212	69,584
Total Current Assets		20,081,074	36,979,815
Non-Current Assets			
Investments and advances	9	1,612,806	-
Property, plant and equipment	10	19,380,521	17,236,331
Right-of-use assets	12	1,344,673	-
Deposits		17,853	277,130
Notes receivable - related party	22	1,583,927	7,046,346
Intangible assets	11	51,800,000	-
Goodwill	11	37,909,991	
Total Assets		133,730,845	61,539,622
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	13	13,780,952	4,980,133
Notes payable and accrued interest - current	14	1,120,000	1,780,000
Convertible notes payable - current	15	150,000	-
Lease payable - current	12	362,531	-
Income tax payable	23	1,078,086	147,742
Provisions	17	34,719,877	-
Total Current Liabilities		51,211,446	6,907,875
Non-Current Liabilities			
Notes payable and accrued interest	14	9,827,227	9,709,474
Series A preferred liability	20	26,585,962	28,359,357
Convertible notes payable	15	19,734,544	16,036,285
Derivative liabilities	16	5,365,206	15,046,628
Deferred tax liability	23	15,778,442	-
Lease payable	12	2,156,665	-
Total Liabilities		130,659,492	76,059,619
Shareholders' Equity (Deficit)			
Share capital	18	22,897,388	9,608,048
Contributed surplus	19	6,813,565	6,091,639
Reserve for warrants	21	632,728	632,728
Accumulated deficit		(27,272,328)	(30,852,412)
Total Shareholders' Equity (Deficit)		3,071,353	(14,519,997)
Total Liabilities and Shareholders' Equity (Deficit)		133,730,845	61,539,622

Nature of operations (Note 1)
Commitments and contingencies (Note 26)
Subsequent events (Note 30)

Approved on behalf of the Board of Directors:

"Peter Bilodeau" (signed)
Director

"Matthew Hawkins" (signed)
Director

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

FLRISH, INC.
Unaudited Restated Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in United States Dollars, except share amounts)

		As Restated (see Note 2.1)	
		For the three months ended	
		March 31, 2019	March 31, 2018
	Notes	$	$
Retail revenue, net		8,261,688	-
Wholesale revenue, net		2,819,081	-
Services and rental revenue - related party	22	441,252	4,719,401
Gross revenue		11,522,021	4,719,401
Excise taxes		(535,608)	-
Net Revenue		10,986,413	4,719,401
Cost of goods sold - retail		4,460,207	-
Cost of goods sold - wholesale		2,871,753	-
Cost of revenue		285,196	1,592,847
		7,617,156	1,592,847
Gross Profit before Biological Assets Adjustments		3,369,257	3,126,554
Change in fair value less costs to sell of biological asset transformation	7	(938,126)	-
Realized fair value amounts included in inventory sold		188,252	-
Gross Profit		2,619,383	3,126,554
Expenses			
General and administrative	27	4,641,732	2,545,542
Professional fees		1,280,999	303,118
Share-based compensation	19	721,926	10,542
Depreciation and amortization		231,240	196,999
		6,875,897	3,056,201
(Loss) Income before the Undernoted		(4,256,514)	70,353
Interest expense		(2,735,230)	(582,056)
Other income (expense)		(6,696)	21,693
Fair value change in derivative liabilities and preferred shares	16, 20	11,696,118	(1,102,746)
Foreign exchange (loss) gain		(272,983)	-
Total Other Income (Expenses)		8,681,209	(1,663,109)
Net Income (Loss) before Income Taxes		4,424,695	(1,592,756)
Income tax (expense) recovery	23	(844,611)	(43,615)
Net Income (Loss) and Comprehensive Income (Loss)		3,580,084	(1,636,371)
Weighted Average Number of Shares Outstanding			
Basic	28	19,570,057	2,377,268
Diluted	28	23,734,312	2,377,268
Net Earnings (Loss) per Share			
Basic		$ 0.18	$ (0.69)
Diluted		$ 0.15	$ (0.69)

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

FLRISH, INC.
Unaudited Restated Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2019 and 2018
(Expressed in United States Dollars except share amounts)

		As Restated (see Note 2.1)					
	Notes	Share Capital	Contributed Surplus	Warrants	Accumulated Deficit	Non-Controlling Interest	Total
		$	$	$	$	$	$
Balance, January 1, 2018		**100,949**	**231,989**	**-**	**(12,517,440)**	**9,139,504**	**(3,044,998)**
Adjustment on adoption of IFRS 9 - credit loss reserve		-	-	-	(493,740)	-	(493,740)
Exercise of stock options	19	781	-	-	-	-	781
Share-based compensation	19	-	10,542	-	-	-	10,542
Net loss for the period		-	-	-	(1,636,371)	-	(1,636,371)
Balance, March 31, 2018		**101,730**	**242,531**	**-**	**(14,647,551)**	**9,139,504**	**(5,163,786)**
Balance, January 1, 2019		**9,608,048**	**6,091,639**	**632,728**	**(30,852,412)**	**-**	**(14,519,997)**
Exercise of stock options	19	1,250	-	-	-	-	1,250
Share-based compensation	19	-	721,926	-	-	-	721,926
Series B common shares issued for PMACC acquisition	4	13,288,090	-	-	-	-	13,288,090
Net income for the period		-	-	-	3,580,084	-	3,580,084
Balance, March 31, 2019		**22,897,388**	**6,813,565**	**632,728**	**(27,272,328)**	**-**	**3,071,353**

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

FLRISH, INC.
Unaudited Restated Condensed Interim Consolidated Statement of Cash Flows
For the three months ended March 31, 2019 and 2018
(Expressed in United States Dollars except share amounts)

		As Restated (see Note 2.1)	
		For the three months ended	
		March 31, 2019	March 31, 2018
	Notes	$	$
Operating Activities			
Net income (loss) for the period		3,580,084	(1,636,371)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Share-based compensation	19	721,926	10,542
Depreciation and amortization	7,10	407,711	196,999
Right-of-use assets amortization	12	146,440	-
Change in fair value of biological assets	7	938,126	-
Change in fair value in derivative liabilities	14,15	(11,696,118)	1,102,746
Foreign exchange gain on convertible debentures	15	372,381	(664,472)
Accretion of interest and debt discount on convertible debentures	15	1,860,014	-
		(3,669,436)	(990,556)
Changes in non-cash working capital:			
Accounts receivable, net	4,5	(1,411,563)	340,918
Accounts receivable - related party	4	(156,056)	(1,605,554)
Inventories	4,6	679,369	-
Biological assets	7	(1,373,552)	-
Prepaid expenses	4,8	(663,189)	(55,738)
Deposits		272,400	49,236
Accounts payable and accrued liabilities	4,13	2,013,439	91,051
Accrued interest on notes payable	14	164,389	143,847
Lease liability	12	(33,259)	-
Income tax payable		930,344	43,615
Provisions		543,877	-
Deferred tax liability		(66,263)	-
Cash Flows (used in) Operating Activities		(2,769,500)	(1,983,181)
Financing Activities			
Proceeds from issuance of convertible debentures	15	1,857,165	-
Proceeds from notes payable, net of loan fees		-	2,575,000
Repayment of notes payable	14,15	(660,000)	-
Proceeds from exercise of stock options	19	1,250	781
Distribution to non-controlling interest		-	(400,000)
Cash Flows provided by Financing Activities		1,198,415	2,175,781
Investing Activities			
Cash acquired on acquisition of PMACC/SJW	4	2,129,223	-
Advances to unconsolidated affiliates - SLWS	9	(399,999)	-
Purchases of property, plant and equipment	10	(1,386,465)	(1,180,451)
Payments received on notes receivable - related party	10	-	475,000
Cash Flows provided by (used in) Investing Activities		342,759	(705,451)
Decrease in cash		(1,228,326)	(512,851)
Cash, beginning of period		14,762,661	1,490,612
Cash, end of period		13,534,335	977,761
Supplementary Information			
Interest paid		204,300	376,934
Non-Cash Investing and Financing Activities			
Cumulative impact of adoption of IFRS 9		-	493,740

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

1. Nature of Operations

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

Effective January 7, 2019, FLRish, through its affiliated entities, began operating two retail dispensaries in the San Francisco Bay area of California and a cultivation facility in Salinas, California (the "Farm"). In addition, FLRish acquired 50% ownership of a third retail dispensary located in San Leandro, California ("SLWS"). See Note 4 for additional information.

On May 30, 2019, FLRish and Lineage Grow Company Ltd. ("Lineage") completed a reverse takeover transaction ("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. ("Harborside"). See Note 30 for additional details.

For purposes of these financial statements as of March 31, 2019, the "Company" refers to FLRish for the period prior to the RTO Transaction and Harborside for the period after the RTO Transaction. The Company is focused on building and maintaining its position as a premier vertically integrated cannabis company.

The Company is licensed to cultivate, manufacture, distribute and sell wholesale and retail cannabis and cannabis products. The Company operates in and/or has ownership interests in California and Oregon, pursuant to the California Medicinal and Adult-Use Cannabis Regulations and the regulations under the Oregon Liquor and Cannabis Commission, respectively.

The address of the Company's principal place of business and registered records office address is 2100 Embarcadero, Suite 202, Oakland, California, 94606, United States ("US").

2. Basis of Presentation

2.1 Restatement

The Company has restated its previously reported unaudited condensed interim consolidated financial statements for the three months ended March 30, 2019, and all related disclosures. The restatement 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 of Harborside for the year ended December 31, 2019. This restatement has been prepared with information to August 12, 2020.

The restatement was primarily due to the acquisitions of Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness ("SJW") on January 7, 2019, which was deemed for accounting purposes to be a business combination that must be accounted for as an acquisition under IFRS 3 – *Business Combinations*. Further, the restatements included in the FLRish, Inc. Amended and Restated Consolidated Financial Statements for the years ended the December 31, 2018 and 2017 (the "2018 Restated Financial Statements") contributed to the adjustments required.

The Company has, amongst other things, increased the quantum reserved in relation to the provision for taxes purported to be owing by PMACC and SJW for historical periods. The provision was reflected retrospectively as part of the purchase accounting (see Note 4), in part as a result of a U.S. Tax Court decision in October 2019 (see Note 17).

Summary of the Impact of the Restatements on the Consolidated Financial Statements

The following is a summary of the impact of the restatements on the previously issued unaudited condensed interim consolidated statements of financial position, statements of loss and comprehensive loss, statement of changes in shareholders' equity (deficit) and statements of cash flows as of March 31, 2019 and December 31, 2018 and for the three months ended March 31, 2019 and 2018 (note supplementary information and non-cash investing and financing activities were excluded from the originally reported statements of cash flows, but are included in the restated statements of cash flows):

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Financial Position

	As at March 31, 2019			
	As Reported	**Note 2.1**	**Adjustments**	**As Restated**
Assets	$		$	$
Current Assets				
Cash and cash equivalents	11,511,191	(1)	2,023,144	13,534,335
Accounts receivable, net	-	(1)	2,040,733	2,040,733
Accounts receivable - related party	23,328,149	(1)	(23,328,149)	-
Inventories	-	(1)	2,175,293	2,175,293
Biological assets	-	(1)	1,050,501	1,050,501
Prepaid expenses	376,386	(1),(2)	903,826	1,280,212
Total Current Assets	35,215,726		(15,134,652)	20,081,074
Non-Current Assets				
Investment and advances	-	(1)	1,612,806	1,612,806
Property, plant and equipment	10,388,388	(1),(3)	8,992,133	19,380,521
Right-of-use assets	-	(1),(4)	1,344,673	1,344,673
Deposits	4,730	(1)	13,123	17,853
Notes receivable - related party	6,625,259	(1),(5)	(5,041,332)	1,583,927
Intangible assets	-	(1)	51,800,000	51,800,000
Goodwill	-	(1)	37,909,991	37,909,991
Total Assets	52,234,103		81,496,742	133,730,845
Liabilities and Shareholders' Equity (Deficit)				
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	6,083,216	(1),(2)	7,697,736	13,780,952
Notes payable and accrued interest - current	980,774	(2)	139,226	1,120,000
Convertible notes payable - current	-	(2)	150,000	150,000
Lease payable - current	-	(1),(4)	362,531	362,531
Income tax payable	-	(2)	1,078,086	1,078,086
Provisions	-	(1)	34,719,877	34,719,877
Deferred gain - current	38,553	(3)	(38,553)	-
Total Current Liabilities	7,102,543		44,108,903	51,211,446
Long Term Liabilities				
Convertible notes payable	20,011,803	(6)	(277,259)	19,734,544
Notes payable and accrued interest	-	(3)	9,827,227	9,827,227
Series A preferred liability	-	(7)	26,585,962	26,585,962
Derivative liabilities	27,894,888	(7)	(22,529,682)	5,365,206
Lease payable	-	(1),(4)	2,156,665	2,156,665
Deferred tax liability	-	(1)	15,778,442	15,778,442
Deferred gain	244,172	(3)	(244,172)	-
Deferred rent	152,000	(3)	(152,000)	-
Total Liabilities	55,405,406		75,254,086	130,659,492
Shareholders' Equity (Deficit)				
Share capital	28,144,261	(1),(7)	(5,246,873)	22,897,388
Contributed surplus	(7,286,831)	(1),(7)	14,100,396	6,813,565
Reserve for warrants	1,022,772	(8)	(390,044)	632,728
Accumulated deficit	(25,051,505)	(9)	(2,220,823)	(27,272,328)
Total Shareholders' Equity (Deficit)	(3,171,303)		6,242,656	3,071,353
Total Liabilities and Shareholders' Equity (Deficit)	52,234,103		81,496,742	133,730,845

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Income and Comprehensive Income

	For the three months ended March 31, 2019			
	As Reported	**Note 2.1**	**Adjustments**	**As Restated**
	$		$	$
Retail revenue	5,203,757	(1)	3,057,931	8,261,688
Wholesale revenue	1,099,319	(1)	1,719,762	2,819,081
Services and rental revenue - related party	-	(1)	441,252	441,252
Gross revenue	6,303,076		5,218,945	11,522,021
Excise tax	-	(1)	(535,608)	(535,608)
Net Revenue	6,303,076		4,683,337	10,986,413
Cost of good sold - retail	-	(1)	(4,460,207)	(4,460,207)
Cost of good sold - wholesale	-	(1)	(2,871,753)	(2,871,753)
Cost of revenue	(2,565,438)	(1)	2,280,242	(285,196)
	(2,565,438)		(5,051,718)	(7,617,156)
Gross profit before biological assets adjustments	3,737,638		(368,381)	3,369,257
Change in fair value less costs to sell of biological asset transformation	-	(1)	(938,126)	(938,126)
Realized fair value amounts included in inventory sold	-	(1)	188,252	188,252
Gross profit	3,737,638		(1,118,255)	2,619,383
Expenses				
General and administrative	2,463,581	(1),(3)	2,178,151	4,641,732
Professional fees	675,163	(1),(2)	605,836	1,280,999
Share-based compensation	1,514,804	(2)	(792,878)	721,926
Depreciation and amortization	213,896	(2),(3),(4)	17,344	231,240
	4,867,444		2,008,453	6,875,897
Loss before the Undernoted	(1,129,806)		(3,126,708)	(4,256,514)
Other Income (Expense)				
Interest expense	(2,001,949)	(1),(2),(3),(4)	(733,281)	(2,735,230)
Fair value change in derivative liabilities and preferred shares	1,059,380	(2),(6)	10,636,738	11,696,118
Gain on sale of equipment	9,638	(3)	(9,638)	-
Other income (expense)	-	(2)	(6,696)	(6,696)
Foreign exchange gain (loss)	-	(2)	(272,983)	(272,983)
Total Other Income (Expense)	(932,931)		9,614,140	8,681,209
Net (Loss) Income before Income Taxes	(2,062,737)		6,487,432	4,424,695
Income tax expense	-	(1)	(844,611)	(844,611)
Net (Loss) Income and Comprehensive (Loss) Income	(2,062,737)		5,642,821	3,580,084
Weighted Average Number of Shares Outstanding				
Basic	NR			19,570,057
Diluted	NR			23,734,312
Net (Loss) Earnings per Share				
Basic	NR			0.18
Diluted	NR			0.15

NR - previously not reported and was not required based on private company requirments

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

	Share Capital			Contributed Surplus			Warrants			Accumulated Deficit			Total		
	As Reported	See Note 2.1 Adjustments	As Restated	As Reported	See Note 2.1 Adjustments	As Restated	As Reported	See Note 2.1 Adjustments	As Restated	As Reported	See Note 2.1 Adjustments	As Restated	As Reported	See Note 2.1 Adjustments	As Restated
	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
Balance, January 1, 2019	**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)**	**(8,234,048)**	**(30,852,412)**	**(2,826,527)**	**(11,693,470)**	**(14,519,997)**
Exercise of stock options	1,250	-	1,250	-	-	-	-	-	-	-	-	-	1,250	-	1,250
Series B common shares issued for PMACC acquisition	-	13,288,090	13,288,090	-	-	-	-	-	-	-	-	-	-	13,288,090	13,288,090
Series A Preferred Stock dividends	-	-	-	-	-	-	-	-	-	(370,404)	370,404	-	(370,404)	370,404	-
Share-based compensation	-	-	-	1,045,682	(323,756)	721,926	-	-	-	-	-	-	1,045,682	(323,756)	721,926
Issuance of shares as settlement for interest payable	1,041,433	(1,041,433)	-	-	-	-	-	-	-	-	-	-	1,041,433	(1,041,433)	-
Net (loss) income for the period	-	-	-	-	-	-	-	-	-	(2,062,737)	5,642,821	3,580,084	(2,062,737)	5,642,821	3,580,084
Balance, March 31, 2019	**28,144,261**	**(5,246,873)**	**22,897,388**	**(7,286,831)**	**14,100,396**	**6,813,565**	**1,022,772**	**(390,044)**	**632,728**	**(25,051,505)**	**(2,220,823)**	**(27,272,328)**	**(3,171,303)**	**6,242,656**	**3,071,353**

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Cash Flows

	For the three months ended March 31, 2019		
		See Note 2.1	
	As Reported	Adjustments	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES	$	$	$
Net (Loss) Income for the period	(2,062,737)	5,642,821	3,580,084
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation and amortization	213,896	193,815	407,711
Right-of-use assets amortization	-	146,440	146,440
Accretion of interest and debt discount on convertible debentures	1,368,410	491,604	1,860,014
Amortization of note receivable discount - related party	(67,683)	67,683	-
Amortization of debt issuance costs	13,500	(13,500)	-
Change in fair value of biological assets	-	938,126	938,126
Change in fair value of derivative liabilities	(1,059,380)	(10,636,738)	(11,696,118)
Share-based compensation	1,045,682	(323,756)	721,926
Deferred rent	22,800	(22,800)	-
Foreign exchange gain on convertible debentures	-	372,381	372,381
	(525,512)	(3,143,924)	(3,669,436)
Changes in non-cash working capital:			
Accounts receivable - related party	(3,246,497)	3,090,441	(156,056)
Accounts receivable	-	(1,411,563)	(1,411,563)
Inventories	-	679,369	679,369
Biological assets	-	(1,373,552)	(1,373,552)
Prepaid expenses	(306,802)	(356,387)	(663,189)
Deposits	272,400	-	272,400
Deferred tax liability	-	(66,263)	(66,263)
Accounts payable and accrued liabilities	(248,329)	2,261,768	2,013,439
Lease payable	-	(33,259)	(33,259)
Provisions	-	543,877	543,877
Accrued interest	1,041,433	(877,044)	164,389
Income tax payable	-	930,344	930,344
Deferred gain on sale of equipment	(9,638)	9,638	-
NET CASH USED IN OPERATING ACTIVITIES	(3,022,945)	253,445	(2,769,500)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash acquired on acquisition of PMACC/SJW	-	2,129,223	2,129,223
Advances to unconsolidated affiliates - SLWS	-	(399,999)	(399,999)
Purchases of property, plant and equipment	(1,366,151)	(20,314)	(1,386,465)
Advances on notes receivable - related party	(657,714)	657,714	-
Payments received on notes receivable - related party	596,924	(596,924)	-
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(1,426,941)	1,769,700	342,759
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of convertible debentures	1,857,166	(1)	1,857,165
Repayments of notes payable	(660,000)	-	(660,000)
Proceeds from exercise of stock options	1,250	-	1,250
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,198,416	(1)	1,198,415
DECREASE IN CASH	(3,251,470)	2,023,144	(1,228,326)
CASH, BEGINNING OF PERIOD	14,762,661	-	14,762,661
CASH, END OF PERIOD	11,511,191	2,023,144	13,534,335

(Expressed in United States Dollars except share amounts)

Interim Condensed Consolidated Statement of Financial Position

	As at December 31, 2018			
	As Reported	Note 2.1	Adjustments	As Restated
Assets	$		$	$
Current Assets				
Cash and cash equivalents	14,762,661		-	14,762,661
Accounts receivable - related party net	20,081,652	(5)	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, plant and equipment	9,236,133	(3)	8,000,198	17,236,331
Notes receivable - related party net	6,496,786	(11)	549,560	7,046,346
Deposits	277,130		-	277,130
Total Assets	**50,923,946**		**10,615,676**	**61,539,622**
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	5,961,141	(10)	(981,008)	4,980,133
Notes payable and accrued interest - current	1,561,258	(13)	218,742	1,780,000
Income tax payable	-	(12)	147,742	147,742
Deferred gain - current	38,553	(3)	(38,553)	-
Total Current Liabilities	**7,560,952**		**(653,077)**	**6,907,875**
Long Term Liabilities				
Notes payable and accrued interest	-	(3)	9,709,474	9,709,474
Series A preferred liability	-	(10)	28,359,357	28,359,357
Derivative liabilities	28,126,745	(10)	(13,080,117)	15,046,628
Deferred gain	253,810	(3)	(253,810)	-
Deferred rent	129,200	(3)	(129,200)	-
Convertible debentures	17,679,766	(13)	(1,643,481)	16,036,285
Total Liabilities	**53,750,473**		**22,309,146**	**76,059,619**
Shareholders' Equity (Deficit)				
Share capital	27,101,578	(10)	(17,493,530)	9,608,048
Contributed surplus	(8,332,513)	(10)	14,424,152	6,091,639
Reserve for warrants	1,022,772	(8)	(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**

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Operations

	Three months ended March 31, 2018			
	As Reported	**Note 2.1**	**Adjustment**	**As Restated**
	$		$	$
Services and rental revenue - related party	4,531,334	(2)	188,067	4,719,401
Gross revenue	**4,531,334**		**188,067**	**4,719,401**
Cost of revenue	1,404,780	(2)	188,067	1,592,847
Gross Profit	**3,126,554**		**-**	**3,126,554**
Expenses				
General and administrative	2,772,257	(3)	(226,715)	2,545,542
Professional fees	(164,874)	(2)	467,992	303,118
Share-based compensation	482,996	(2)	(472,454)	10,542
Depreciation and amortization	70,651	(3)	126,348	196,999
	3,161,030		**(104,829)**	**3,056,201**
Loss before the undernoted	**(34,476)**		**104,829**	**70,353**
Other Income (Expense)				
Interest expense	(401,710)	(3)	(180,346)	(582,056)
Fair value change in derivative liabilities	-	(10)	(1,102,746)	(1,102,746)
Gain on sale of equipment	22,538	(3)	(22,538)	-
Other income (expense)	(10,400)	(2)	32,093	21,693
Total Other Income (Expense)	**(389,572)**		**(1,273,537)**	**(1,663,109)**
Net loss before Income Taxes	**(424,048)**		**(1,168,708)**	**(1,592,756)**
Income tax (expense) recovery	-	(12)	(43,615)	(43,615)
Net Loss and Comprehensive Loss	**(424,048)**		**(1,212,323)**	**(1,636,371)**
Weighted average number of shares Outstanding				
Basic and diluted	**NR**			2,377,268
Net loss per Share				
Basic and diluted	**NR**			(0.69)

NR - Not required to be reported

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Changes in Shareholders' Equity (Deficit)

	Share Capital			Contributed Surplus			Accumulated Deficit			Non-Controlling Interest			Total		
	As Reported	See Note 2.1 Adjustments	As Restated	As Reported	See Note 2.1 Adjustments	As Restated	As Reported	See Note 2.1 Adjustments	As Restated	As Reported	See Note 2.1 Adjustments	As Restated	As Reported	See Note 2.1 Adjustments	As Restated
	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
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)
Adjustment related to the adoption of IFRS 9 - credit loss reserve	-	-	-	-	-	-	(493,740)	-	(493,740)	-	-	-	(493,740)	-	(493,740)
Exercise of stock options	782	(1)	781	-	-	-	-	-	-	-	-	-	782	(1)	781
Distribution to non-controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based compensation	-	-	-	13,875	(3,333)	10,542	-	-	-	-	-	-	13,875	(3,333)	10,542
Net loss for the year	-	-	-	-	-	-	(424,048)	(1,212,323)	(1,636,371)	(424,048)	424,048	-	(848,096)	(788,275)	(1,636,371)
Balance, March 31, 2018	**101,731**	**(1)**	**101,730**	**245,864**	**(3,333)**	**242,531**	**(11,196,686)**	**(3,450,865)**	**(14,647,551)**	**8,715,456**	**424,048**	**9,139,504**	**(2,133,635)**	**(3,030,151)**	**(5,163,786)**
											-				

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Cash Flows

	Three months ended March 31, 2018		
		See Note 2.1	
	As Reported	Adjustments	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES	$	$	$
Net loss before non-controlling interest	(424,048)	(1,212,323)	(1,636,371)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	(70,651)	267,650	196,999
Change in fair value of derivative liability	-	1,102,746	1,102,746
Share based compensation	13,875	(3,333)	10,542
Deferred rent	22,800	(22,800)	-
Foreign exchange gain	-	(664,472)	(664,472)
Accounts receivable - related party	(2,566,630)	961,076	(1,605,554)
Accounts receivable	-	340,918	340,918
Prepaid expenses	(55,738)	-	(55,738)
Deposits	(23,572)	72,808	49,236
Accounts payable and accrued iabilities	384,370	(293,319)	91,051
Deferred gain	(9,639)	9,639	-
Accrued interest	-	143,847	143,847
Income tax payable	-	43,615	43,615
NET CASH USED IN OPERATING ACTIVITIES	(2,729,233)	746,052	(1,983,181)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(1,039,149)	(141,302)	(1,180,451)
Advances on notes receivable - related party	(189,608)	189,608	
Payments received on notes receivable - related party	596,924	(121,924)	475,000
NET CASH USED IN INVESTING ACTIVITIES	(631,833)	(73,618)	(705,451)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable, net of loan fees	2,847,432	(272,432)	2,575,000
Proceeds from exercise of stock options	781	-	781
Distribution to non-controlling interest	-	(400,000)	(400,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,848,213	(672,432)	2,175,781
DECREASE IN CASH	(512,853)	2	(512,851)
CASH, BEGINNING OF PERIOD	1,490,612	-	1,490,612
CASH, END OF PERIOD	977,759	2	977,761

(1) As outlined in Note 4, *Acquisitions,* the Company completed the acquisitions of PMACC and SJW on January 7, 2019. The assets acquired and the liabilities assumed related to these acquisitions were not recorded in the Company's consolidated financial statements as of and for the period ending March 31, 2019. Further as part of this process, IFRS 3, *Business Combinations,* requires fair value measurements, identifying intangible assets, and determining any Goodwill. At the time of the Company's original issuance of the interim report, the Company had not consolidated these acquisitions and completed the assessments of purchase accounting under IFRS 3. These adjustments relate to these acquisitions.

(2) Accounting corrections were made as part of the Company's reassessment of transactions recorded in earlier interim periods. These adjustments were identified during the Company's accounting analysis on recent acquisitions, the 2018 Restated Financial Statements process, and the 2019 year-end close procedures for related transactions.

(3) These adjustments correspond to the 2018 Restated Financial Statements in which a sale and concurrent lease transaction was determined to be a financing arrangement for accounting purposes. Refer to Note 2 section (1) of the 2018 Restated Financial Statements for additional information.

(4) The Company adopted IFRS 16, *Leases*, on January 1, 2019. At the time of the interim filing, the Company had not completed the initial analysis of the PMACC leases. The impact of the Company's adoption when the Company acquired PMACC and the related leases were excluded from the Company's originally issued interim financial statements.

(5) The Accounts Receivable – related party was adjusted to remove an expected credit loss allowance for $2.1 million for PMACC as part of the 2018 Restated Financial Statements. Refer to Note 2 section (6) of the 2018 Restated Financial Statements for additional information.

(6) The adjustment is primarily attributed to the derivative component of the debt recorded during the period. See Note 15 for additional information.

(7) These adjustments correspond to the 2018 Restated Financial Statements for the reclassification of Series A-1 Preferred Shares (as defined in Note 18) and the related fair value of the derivative liability from equity to liability. Further, revaluation adjustments were recorded related to the Company's share-based compensation methodology and impacted Contributed Surplus. Refer to Note 2 sections (2) and (4) of the 2018 Restated Financial Statements for additional information. Such adjustments also impacted the opening equity balances of the March 31, 2019 Share Capital and Contributed Surplus.

(8) Adjustments of approximately $390,000 were made to certain of the Company's broker and advisory warrants as part of the 2018 Restated Financial Statements. Refer to Note 2 section (3) of the 2018 Restated Financial Statements for additional information.

(9) The change in Accumulated deficit is impacted by current period net income, which include the restatement adjustments, and the cumulative changes from the 2018 Restated Financial Statements restatement.

(10) Accounts Payable and Accrued Liabilities, Series A Preferred Liability, Derivative Liabilities, Share Capital, and Contributed Surplus were adjusted as part of 2018 Restated Financial Statements. These adjustments also impact the fair value measurements as such measurements are recorded through profit and loss. Refer to Note 2 section (2) of the 2018 Restated Financial Statements for additional information. Contributed Surplus was also impacted by adjustments related to share-based compensation. Refer to Note 2 section (4) of the 2018 Restated Financial Statements for additional information.

(11) The Notes Receivable – Related Party, net was adjusted as part of the 2018 Restated Financial Statements to reflect a gain for the sale of SJW to PMACC when initially recorded in 2017. Further adjustments were made related to the interest calculations over the duration of the note. Refer to Note 2 section (7) of the 2018 Restated Financial Statements for additional information.

(12) The provision for income taxes and related income tax payable were adjusted as part of the 2018 Restated Financial Statements. Refer to Note 2 section (9) of the 2018 Restated Financial Statements for additional information.

(13) The term loan with CFP Fund I, LLC ("CFP") and Series B convertible debt was adjusted as part of the 2018 Restated Financial Statements to remove the previously recorded discount. Additional adjustments included debt conversion and foreign exchange recalculation value modifications. Refer to Note 2 sections (3) and (5) of the 2018 Restated Financial Statements for additional information.

2.2 Statement of Compliance

The Company's condensed interim consolidated financial statements for the three months ended March 31, 2019 and 2018 were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") have been omitted or condensed.

These unaudited restated condensed interim consolidated financial statements should be read in conjunction with the 2018 Restated Financial Statements, which were authorized for issuance by the Company's Board of Directors (the "Board") on August 12, 2020.

2.3 Basis of Measurement

These condensed interim consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern, using the historical cost basis, except for certain financial instruments and biological assets, which are measured at fair value.

These condensed interim consolidated financial statements have been prepared on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will continue to be successful in the future.

2.4 Functional Currency

Unless otherwise indicated, these condensed interim consolidated financial statements are presented in United States dollars ($ or "USD"), which is deemed the currency of the primary economic environment in which the Company operates (its "functional currency"). Following the completion of the RTO Transaction, the Company determined that the USD still best represents its functional currency. All references to "C$" or "CAD" pertain to Canadian dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate in effect on the dates of the transactions). Foreign exchange gains (losses) resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income (loss), and recorded into earnings upon ultimate disposition.

(Expressed in United States Dollars except share amounts)

2.5 Basis of Consolidation

These condensed interim consolidated financial statements incorporate the accounts of the Company and its subsidiaries, with ownership at March 31, 2019 and December 31, 2018 as follows:

Company Name	Jurisdiction	March 31, 2019	December 31, 2018
FLRish, Inc.	California, US	100%	100%
FLRish IP, LLC	California, US	100%	100%
FLRish Retail, LLC	California, US	100%	100%
FLRish Retail JV, LLC	California, US	100%	0%
FLRish Retail Management & Security Services, LLC	California, US	100%	100%
FLRish Retail Affiliates, LLC	California, US	100%	100%
FLRish Flagship Enterprises, Inc.	California, US	100%	100%
FLRish Farms, Inc.	California, US	100%	100%
Savature Inc.	California, US	100%	100%
SaVaca, LLC	California, US	100%	100%
FFC1, LLC	California, US	100%	100%
FLRish Farms Cultivation 2, LLC	California, US	100%	0%
FLRish Farms Cultivation 7, LLC	California, US	100%	0%
FLRish Farms Cultivation 8, LLC	California, US	100%	100%
Patients Mutual Assistance Collective Corporation	California, US	100%	0%
San Jose Wellness Solutions Corp.	California, US	100%	0%
San Leandro Wellness Solutions Inc.	California, US	50%	0%

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. As of March 31, 2019, the Company was deemed to not hold a controlling interest in SLWS and instead accounted for its investment under the equity method (Note 9). The condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries that it controls after eliminating intercompany balances and transactions.

2.6 Significant Accounting Judgments and Estimates

The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made as appropriate in the period they become known.

The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2018. As a result of the consolidation of PMACC and SJW on January 7, 2019 (Note 4), additional judgments, estimates and assumptions that have significant effects on the amounts recognized in the March 31, 2019 condensed interim consolidated financial statements are described as follows:

Going concern

At the end of each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgements of management with respect to assumptions surrounding the short- and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends. Management believes there is sufficient capital to meet the Company's business obligations for at least the next 12 months, after taking into account expected cash flows and the Company's cash position at period-end.

As indicated in Note 17 to these condensed interim consolidated financial statements, in accordance with IFRIC 23 – *Uncertainty over Income Tax Treatments*, the Company has recognized a provision for particular uncertain tax positions which are related to a business combination. The Company strongly disagrees with the positions taken by the Internal Revenue Service and the findings of the Tax Court and is actively appealing to the Ninth Circuit Court of Appeals. Management has considered, in consultation with outside counsel, that the final amount to be paid 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. No payments related to any of the provision amounts are expected to be paid until 2022. The Company 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 the Company will need to obtain additional capital in order to meet these uncertain cash flow requirements and there is no assurance that such capital will be available or available on favorable terms.

Management continues to monitor the Company's operational performance, progress of the tax litigation and appeals process, and its ability to raise funds.

These consolidated financial statements do not reflect adjustments to the reported carrying values of assets and liabilities; reported revenues and expenses; or, classifications in statements of financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations.

Business combination

In a business acquisition, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the acquisition date at their respective fair values. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree – the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. Management exercises judgment in considering all pertinent facts and circumstances in identifying the acquisition date.

The Company examines three elements to determine whether control exists. When all of these three elements of control are present, then an investor is considered to control an investee and consolidation is required. When one or more of the elements is not present, an investor will not consolidate but instead be required to determine the nature of its relationship with the investee. The Company exercises its judgment when determining control over an investee, in when it has all of the following attributes: power over the investee, such as the ability to direct relevant activities of the investee; exposure, or rights, to variable returns from its involvement with the investee, such as returns that are not fixed and have the potential to vary with performance of the investee; and the ability to use its power over the investee to affect the amount of the investor's returns, such as identifying the link between power and returns.

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or an asset acquisition can have a significant impact on the entries made at and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Management exercises judgment in estimating the probability and timing of when contingent securities are expected to be issued which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied. Purchase consideration also includes consideration of any pre-existing relationships that are effectively settled as a result of the acquisition at their fair values.

Fair value of biological assets and inventories

Determination of the fair value of biological assets and agricultural products requires management to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventories and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventories.

Significant assumptions used in determining the fair value of biological assets include:

- Estimating the stage of growth of cannabis up to the point of harvest;
- Pre-harvest and post-harvest costs;
- Expected sales selling prices;
- Expected yields for cannabis plants to be harvested, by strain of plant; and
- Wastage of plants at various stages.

The valuation of work in process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for inventories. The Company must also determine if the cost of any inventories exceeds its net realizable value ("NRV"), such as cases where prices have decreased, or inventories have spoiled or otherwise been damaged. The Company estimates the NRV of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position which cannot be derived from active markets, are determined using a variety of techniques, including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. Judgment includes, but is not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

Estimated useful lives, depreciation of property, plant and equipment and amortization of intangible assets

Depreciation of property, plant 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 which take into account factors such as economic conditions, market conditions and the useful lives of assets.

Amortization of intangible assets is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgment. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as general and industry-specific economic and market conditions.

Incremental borrowing rate for leases under IFRS 16

IFRS 16 requires lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. As information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is generally not available, the Company uses its incremental borrowing rate when initially recording real estate leases. The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, in a similar economic environment over a similar term.

Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization, if applicable, and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. The Company determined that its trademark has a finite life and accordingly amortizes it over its estimated useful life of four years. Licenses are deemed to have an indefinite useful life and are tested for impairment annually.

Determination of cash generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped at the lowest levels for which there are largely independent cash inflows. The Company determines which groups of assets (each a “Cash-Generating Unit or a “CGU”) can generate cash flows that are largely independent of other operations within the Company. Management exercises judgment in assessing where active markets exist including an analysis of the degree of autonomy each operation has in negotiating prices with customers.

Based on the nature of the business and the assessment that the CGUs generate cash flows that are largely independent of the cash flows from other assets deployed in the Company, the Company has determined that the cultivation farm is a separate CGU, as is each retail dispensary.

Impairment

Long-lived assets, including property, plant and equipment and definite life intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, or its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss for the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded if no impairment loss been recognized previously.

Goodwill and Indefinite-lived intangible assets

Goodwill and indefinite-lived intangible assets are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill or intangible assets has been impaired. In order to determine if the value of goodwill has been impaired, the CGU or group of CGUs to which goodwill has been allocated must be valued using present value techniques. The Company assesses impairment by comparing the recoverable amount of a long-lived asset, a CGU, or a CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves significant estimates and assumptions. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Income taxes

Income taxes and tax exposures recognized in the condensed interim consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. The Company recognizes a liability when, based on its estimates, it anticipates a future income tax payment. A difference between an expected amount and the final tax outcome has an impact on current and deferred taxes in the period when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Share-based payment transactions and warrants

The Company measures the cost of equity-settled transactions with officers and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain and changes in these assumptions will affect the fair value estimates.

Compound financial instruments

The conversion feature and the warrants component of convertible debentures and convertible notes payable, and warrants denominated and exercisable in a foreign currency, are accounted for as derivative liabilities as their fair value is affected by changes in the fair value of the Company's Shares and in response to the changes in foreign exchange rates. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The conversion feature and warrant component of the convertible debentures and convertible notes payable, and warrants denominated and exercisable in a currency in other than the Company's functional currency, are required to be measured at fair value at each reporting period.

The valuation techniques used to determine fair value require inputs that involve assumptions and judgments such as estimating the future volatility of the stock price, expected dividend yield, and expected life. Such judgments and assumptions are inherently uncertain.

Provisions

The Company recognizes provisions if there is a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and the obligation can be reliably estimated. The amount recognized as a provision reflects management's best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

3. Summary of Significant Accounting Policies

The same accounting policies are applied in these unaudited condensed interim consolidated financial statements as those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2018, except as described below:

3.1 Revenue with Customers

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Cultivation taxes are a production tax which becomes payable when a cannabis product is delivered to the customer and are not directly related to the value of sales. These taxes are netted against gross sales on the consolidated statements of loss and comprehensive loss. Excise duties and taxes collected on behalf of third parties are excluded from revenue. Net revenue from the sale of goods represents revenue from the sale of goods less applicable cultivation taxes and price discounts.

The Company's policy for the timing and amount of revenue to be recognized is based on the following five-step process in accordance with IFRS 15 – Revenue from Contracts with Customers:

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

The Company's sales of cannabis and related merchandise and other products consist of one (1) performance obligation. The Company has concluded that revenue from the sale of products should be recognized at the point in time when control is transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer.

Dispensary Revenue

The Company recognizes revenue from the sale of cannabis for a fixed price upon delivery of goods to customers at the point of sale since at this time performance obligations are satisfied.

Cultivation and Wholesale Revenues

The Company recognizes revenue from the sale of cannabis for a fixed price upon the delivery of cannabis goods. When delivery occurs, the Company has transferred to the buyer the significant risks and rewards of ownership of the goods.

Loyalty Program

The Company has an ongoing loyalty points program that allows customers to redeem the points towards additional goods or services at a price that reflects a significant discount from the stand-alone selling price of a product. This program provides a customer with a material right which is accounted for as a separate performance obligation. Management calculates the estimated value of each point redeemable based on the weighted average of the value of the points redeemed and the distribution of the redemption values. The total value of the material right is calculated based this estimated value of each point and the total number of points earned during the year. Based on the stand-alone selling price allocation, management allocates a portion of the gross sales revenue to the material right. As the points are redeemed, a proportionate amount of material right is recognized as revenue and at year-end the amount of the material right represented by the unredeemed points is carried forward as a liability. As of March 31, 2019, and December 31, 2018, the Company had no unredeemed points recorded related to loyalty programs.

3.2 Biological Assets

The Company's biological assets consist of cannabis plants. The Company measures biological assets at fair value less costs to complete and sell up to the point of harvest. Unrealized gains or losses arising from the changes in fair value less costs to complete and sell during the period are separately recorded in the consolidated statements of loss and comprehensive loss for the related period. At the point of harvest, the biological assets are transferred to inventories at their fair value less costs to complete and sell. All direct and indirect costs related to biological assets are capitalized as they are incurred, and expensed when the related item is sold.

While the Company's biological assets are within the scope of IAS 41 – *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 –*Inventories*. These include the direct cost of labor, seeds and growing materials, as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labor for individuals involved in the growing and quality control process is also included, as well as certain overhead costs related to the growing facility. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are subsequently recorded within cost of goods sold in the period that the related products are sold.

3.3 Inventories

Inventories are measured at the lower of cost and NRV, which is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. The Company measures inventory cost using the weighted average method.

Inventories of harvested cannabis are transferred from biological assets into inventories at their fair value at harvest less costs to sell, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventories to the extent that cost is less than NRV. Packaging and supplies are initially valued at cost. All direct and indirect costs related to inventories are capitalized as they are incurred, and expensed when the related item is sold.

3.4 Business Combination

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of the assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net identifiable assets acquired. Acquisition costs incurred are expensed to profit or less.

Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, with the corresponding gain or loss recognized in profit or loss.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

3.5 Property, Plant and Equipment

Property, plant and equipment is measured at cost, net of accumulated depreciation and any impairment losses. Cost includes expenditures that are directly attributable to the asset acquisition. The cost of self-constructed assets includes the cost of materials, direct labor and other costs directly attributable to make the asset available for its intended use, as well as relevant borrowing costs on qualifying assets. During their construction, property, plant and equipment are classified as construction in progress ("CIP") and are not subject to depreciation. When the asset is available for use, it is transferred from CIP to the relevant category of property, plant and equipment and depreciation commences.

Where particular parts of an asset are significant, discrete and have distinct useful lives, the Company may allocate the associated costs between the various components, which are then separately depreciated over the estimated useful lives of each respective component. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Agricultural buildings	15 years
Agricultural equipment	5 years
Furniture and fixtures	7 years
Vehicles	5 years
Office and computer equipment	3-5 years
Security equipment	5 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 assesses impairment of property, plant and equipment when an impairment indicator arises (e.g. a change in use or discontinued use, obsolescence or physical damage). When the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the asset is tested at the CGU level. In assessing impairment, the Company compares the carrying amount of the asset or CGU to the recoverable amount, which is determined as the higher of the asset or CGU's fair value less costs of disposal and its value-in-use. Value-in-use is assessed based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects applicable market and economic conditions, the time value of money and the risks specific to the asset. An impairment loss is recognized whenever the carrying amount of the asset or CGU exceeds its recoverable amount and is recorded in the consolidated statements of income (loss) and comprehensive income (loss).

An asset's residual value, useful life and depreciation method are reviewed annually and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. 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 loss and comprehensive loss in the year the asset is de-recognized.

Assets in process are transferred to the appropriate asset class when available for use and depreciation of the assets commences at that point.

3.6 Intangible Assets and Goodwill

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and any impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite-lived intangible assets is calculated on a straight-line basis over their estimated useful lives. The Company has a trademark which is amortized over its estimated useful life of four years. The Company's licenses were assigned an indefinite life.

The estimated useful lives, residual values and amortization methods are reviewed annually and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life are not subject to amortization, but are tested for impairment annually.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment annually, and whenever events or circumstances that make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all, or a portion of, a reporting unit. Finite-lived intangible assets are tested whenever there is an indication of impairment.

Goodwill and indefinite-lived intangible assets are tested annually for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. Goodwill is allocated to CGUs or groups of CGUs for impairment testing based on the level at which it is monitored by management, and not at a level higher than an operating segment. Goodwill is allocated to those CGUs or groups of CGUs expected to benefit from the business combination from which the goodwill arose, which requires the use of judgment.

An impairment loss is recognized for the amount by which the carrying amount of the CGU exceeds its recoverable amount. The recoverable amounts of the CGU's assets are determined based on fair value less costs of disposal. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of a CGU, given the necessity of making key economic assumptions about the future. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying value of assets in the CGU. Any impairment is recorded in profit and loss in the period in which the impairment is identified. A reversal of an asset impairment loss is allocated to the assets of the CGU on a pro-rata basis. In allocating a reversal of an impairment loss, the carrying amount of an asset is not increased above the lower of its recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior period. Impairment losses on goodwill are not subsequently reversed.

3.7 Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

3.8 Share Capital

Shares

The voting securities of the Company consist of Series A and Series B Common Stock (collectively, "Shares"). The Shares are classified as equity. Transaction costs directly attributable to the issuance of Shares and options to purchase Shares are recognized as a reduction in equity.

Equity units

Proceeds received on the issuance of units, comprised of Shares and warrants are allocated to Shares and warrants based on the residual method.

3.9 Earnings/Loss per Share

The Company calculates basic earnings/loss per share by dividing net income (loss) by the weighted average number of Shares outstanding during the period. Diluted loss per Share is determined by adjusting loss attributable to common shareholders and the weighted average number of Shares outstanding, for the effects of all dilutive potential Shares, which comprise convertible debentures, restricted stock awards, warrants, and stock options issued.

3.10 Investments in and Advances to Unconsolidated Associates and Joint Ventures

Associates are companies over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence represents the power to participate in the financial and operating policy decisions of the investee but does not represent the right to exercise control or joint control over those policies. A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Investments in associates and joint ventures are accounted for using the equity method and are initially recognized at cost, excluding financial assets that are not in-substance equity shares and inclusive of transaction costs. When the Company holds marketable securities or derivative financial assets and subsequently obtains significant influence in that investee, the fair value of the financial instruments is reclassified to investments in associates at the deemed cost, with the cumulative unrealized fair value gains or losses in other comprehensive (loss) income, if any, transferred to deficit.

The condensed interim consolidated financial statements include the Company's share of the investee's income, expenses and equity movements. Where the Company transacts with its joint ventures or associates, unrealized profits or losses are eliminated to the extent of the Company's interest in the joint venture or associate.

Investments in associates and joint ventures are assessed for indicators of impairment at each period-end. An impairment test is performed when there is objective evidence of impairment, such as significant adverse changes in the environment in which the equity-accounted investee operates, or there is a significant or prolonged decline in the fair value of the investment below its carrying amount. An impairment loss is recorded when the recoverable amount is lower than the carrying amount. An impairment loss is reversed if the reversal is related to an event occurring after the impairment loss is recognized. Reversals of impairment losses are recognized in profit or loss and are limited to the original carrying amount under the equity method as if no impairment had been recognized for the asset in prior periods. The Company uses judgment in assessing whether impairment has occurred or a reversal is required as well as the amounts of such adjustments.

3.11 Adoption of New Accounting Policies

The Company adopted the following standards effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

IFRS 16 – Leases ("IFRS 16")

Beginning on January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach where prior periods are not restated. The new standard supersedes the requirements in IAS 17 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives,* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 provides a new framework for lessee accounting that requires most Right of Use ("ROU") assets obtained through operating leases to be capitalized and a related liability to be recorded. IFRS 16 substantially carries forward the accounting requirements for lessors.

The adoption of IFRS 16 results in changes to property lease contracts which were previously classified as operating leases under IAS 17. Upon adoption, lease obligations equal to the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate are recognized. An ROU asset, representing the Company's right-to-use the underlying leased asset, will generally be equal to the lease obligation at adoption and subsequently depreciated on a straight-line basis.

Payments previously recognized in the consolidated statements of net earnings are replaced by a combination of depreciation on the ROU asset and interest expense on the lease obligations. Depreciation is presented separately in the Company's consolidated statements of loss and comprehensive loss. Interest expense is classified as interest expense.

On transition to IFRS 16, the Company elected to apply the following practical expedients:

- Using a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- Accounting for operating leases with a remaining lease term of 12 months or less as at the date of initial application as short-term leases;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Not to reassess whether a contract is or contains a lease at the date of initial application.

The impact of this adoption was not material. Refer to Note 12 for additional information.

IFRIC 23 – Uncertainty Over Income Tax Treatments ("IFRIC 23")

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The IFRIC concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. See Note 17 for further information.

Annual Improvements to IFRS (2015-2017) Cycle

Beginning January 1, 2019, the Company adopted narrow-scope amendments to a total of four standards as part of its annual improvement process. Amendments were made to clarify that a company must remeasure its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 *Business Combinations* but does not remeasure when it obtains joint control of the business under IFRS 11 *Joint Arrangements*. The amendments also include clarification that, all income tax consequences of dividend payments should be recognized consistently with the transactions that generated the distributable profits, under IAS 12 *Income Taxes* and that under IAS 23 *Borrowing Costs*, any specific borrowing that remains outstanding after the related asset is ready for its intended use or sale becomes part of general borrowings. The Company adopted these amendments prospectively in its condensed interim consolidated financial statements for the annual period beginning January 1, 2019. The adoption of these standards did not have a material impact on the condensed interim consolidated financial statements.

3.12 Recent Accounting Pronouncements

The Company is currently assessing the impact that adopting the new standards or amendments will have on its condensed interim consolidated financial statements. No material impacts are expected upon the adoption of the following new standards:

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

IAS 1 and IAS 8 were amended in October, 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

Conceptual Framework

On March 29, 2018, the IASB issued its revised Conceptual Framework for Financial Reporting. The revised Conceptual Framework does not constitute a substantial revision from the previously effective guidance, but does provide additional guidance on topics not previously covered such as presentation and disclosure. This amendment is effective on January 1, 2020. The Company intends to adopt this amendment in its consolidated financial statements for the annual period beginning January 1, 2020. The adoption of the revised Conceptual Framework for Financial Reporting is not expected to have a material impact on the consolidated financial statements.

Definition of a Business

On October 22, 2018, the IASB issued a narrow scope amendment to IFRS 3. This amendment narrowed and clarified the definition of a business, as well as permitted a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. This amendment is effective on January 1, 2020 and is to be applied prospectively. The Company intends to adopt the amendment to IFRS 3 in its condensed interim consolidated financial statements for the annual period beginning January 1, 2020. The adoption of the amendment to IFRS 3 is not expected to have a material impact on the consolidated financial statements.

4. Acquisitions

The Company completed a business acquisition during the three months ended March 31, 2019. The acquisition of PMACC and SJW was accounted for in accordance with IFRS 3.

(Expressed in United States Dollars except share amounts)

A summary of the business acquisition completed during the three months ended March 31, 2019 is as follows:

	PMACC/SJW
Acquisition Date	January 7, 2019
Fair Value of Consideration Paid:	
Fair value of:	
Debt assumed/settled	$ 27,749,246
Share capital issued	13,288,090
Total Consideration	$ 41,037,336

	PMACC/SJW
Consideration Paid	$ 41,037,336
Fair value of net assets acquired:	
Cash	2,129,223
Accounts receivable	629,170
Biological assets	615,075
Inventories	2,854,662
Prepaid expenses	547,439
Investments and advances to unconsolidated affiliates	1,212,807
Property and equipment	1,165,436
Right-of-use assets	1,491,113
Intangible assets - licenses	51,800,000
Other assets	13,123
Accounts payable and accrued expenses	(6,787,382)
Operating lease liabilities	(2,552,456)
Provisions	(34,176,000)
Deferred tax liability	(15,814,865)
Total Identifiable Net Assets	3,127,345
Goodwill	37,909,991
Net Assets Acquired	$ 41,037,336

Had this acquisition been made as of the beginning of the 2019 annual reporting period, the Company's consolidated revenue and loss for the quarter ended March 31, 2019 would have been as shown below:

For the year ended March 31, 2019:	Net Revenue	Net Income
As reported	$ 10,986,413	$ 3,580,084
Pro forma impact for:		
PMACC/SJW	945,523	(309,780)
Pro forma	$ 11,931,936	$ 3,270,304

Acquisition of PMACC and SJW

PMACC is a California company that was incorporated on August 28, 2005. PMACC's primary activity is the cultivation and dispensing of cannabis to eligible individuals pursuant to state and local law. SJW is a California corporation that was organized on November 17, 2009. SJW began doing business in 2012 as a compliant medical cannabis dispensary in San Jose, California under the Harborside brand. PMACC and SJW were owned by the same shareholders, each shareholder owning 50% of the respective entities, and were related parties of the Company until they were acquired by the Company in January 2019. Though PMACC, SJW and the Company were related parties prior to the acquisition, the acquisition was not a common control transaction and the IFRS 3 scope exception therefore does not apply.

On January 7, 2019, FLRish entered into a series of agreements (the "Merger Option Agreements") with 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 FLRish's series B common stock (the "Series B Common Shares") plus the assumption of debt owed by PMACC and SJW. Of the $41,037,336 total consideration paid for PMACC and SJW, $27,749,246 represents settlement of pre-existing related party liabilities owed by PMACC and SJW to FLRish under previous operating agreements, and the $13,288,090 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. The shares would be released to PMACC and SJW shareholders upon the completion of the merger, or at the termination of the Merger Option. If the Merger Option was not exercised prior to September 27, 2023, the Merger Option Agreements would terminate.

The Company determined that on January 7, 2019, the date the Merger Option Agreements were executed, the Company obtained de facto control of PMACC and SJW. On this date, the Company had:

a) Power over PMACC and SJW as a result of having substantive potential voting rights that gave it the current ability to direct the relevant activities, even though legal ownership remained with the prior shareholders;
b) Rights to variable returns to the retained earnings of PMACC and SJW from the January 7, 2019 date of execution of the Merger Option Agreements to the date of exercise of the Merger Option Agreements; and
c) The ability to use its power over PMACC and SJW to affect the amount of its returns through the ability to currently exercise the Merger Option and direct the relevant activities of PMACC and SJW.

Pursuant to the RTO Transaction, Lineage and FLRish agreed to exercise the Merger Option relating to PMACC under the Merger Option Agreements to purchase 100% of each of PMACC and SJW after the RTO Transaction, whereby the Company obtained legal control over PMACC and SJW and the shares were issued to the former shareholders of PMACC and SJW.

On January 7, 2019, as a result of the exercise of the Merger Option granted under the Merger Option Agreements to acquire PMACC, the Company also indirectly acquired a 50% ownership interest in SLWS, an entity formed on September 28, 2015 as a premier indoor clone cultivator, with the intention of launching a cannabis dispensary in San Leandro, California. The Company estimated the fair value of this investment on January 7, 2019 using a discounted cash flow method to arrive at an indicated fair value of the business, adjusted for debt, to arrive at an estimated value of total equity, upon which the 50% ownership interest, a 10% discount for lack of control and a 23% discount for lack of marketability was applied to arrive at the fair value estimate of the 50% equity investment. The fair value of the investment was $160,000. In addition, SLWS owed PMACC $1,057,807, which has been recorded at carrying value as of January 7, 2019. In October 2019, the Company purchased the remaining 50% ownership in SLWS, making it a wholly-owned subsidiary of PMACC. See Note 30 for additional details.

The Company elected an accounting policy for the Merger Option Agreements to use the "anticipated-acquisition method", whereby it assumes the options have been already exercised on grant date because the non-controlling shareholders (the sellers) do not have access to the returns of the entity associated with the underlying equity interest. Using this method, no non-controlling interest ("NCI") is recognized for the duration of the option instrument. The Merger Option Agreements provided that only the Company was entitled to all of PMACC's and SJW's profits and cash flows from January 7, 2019 until either the Merger Options were exercised or the Merger Option Agreements expired. Since no consideration was payable upon exercise of the Merger Option, no related financial liability should be recognized.

As FLRish was a privately held company on January 7, 2019, the Company estimated the fair value of the equity consideration paid for the Merger Options as of January 7, 2019, the date the Merger Option Agreements were entered into. Primary reliance was placed on deriving the enterprise value and the Series B Common Share value from

(Expressed in United States Dollars except share amounts)

FLRish's October 2018 and November 2018 convertible debenture private placements (the "2018 Private Placements") for Series B Debenture Units (the "Series B Debenture Units") of FLRish (comprised of unsecured convertible debentures and warrants to acquire Series B Common Shares of FLRish), and performing a roll-forward analysis from October 30, 2018 to the January 7, 2019 valuation date. The valuation method used to value the shares was a hybrid method (the "Hybrid Method"), a blend of the Probability-Weighted Expected Return Method ("PWERM") and an option pricing model ("OPM"), whereby the initial share price calibrated the value equal to the proceeds of the Series B Debenture Units. The following were the key assumptions:

i. computed the probability-weighted Series B Common Share value across six initial public offerings ("IPO") scenarios yielding a weighted average range of implied exit prices for the Series B Common Share of $6.77 to $8.56 per share across the scenarios,
ii. constructed an option pricing model analysis to estimate the value for the other non-IPO scenarios by benchmarking to the 2018 Private Placements to calculate the implied equity value of the Company using the option-pricing method of allocation and,
iii. weighted the concluded stock values under each method based on management's best estimates of the probability of an IPO at 50%/50% IPO/non-IPO as of October 31, 2018 and 60%/40% IPO/non-IPO as of January 7, 2019.

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. This amount was not deemed to be part of the consideration paid in the acquisition. Approximately $600,000 of severance was expensed in the accompanying condensed interim consolidated statements of income (loss) and comprehensive income (loss) for the three months ended March 31, 2019.

The estimated fair value of acquired intangible assets includes approximately $51.7 million of cannabis licenses to operate dispensaries. The key assumptions used in estimating the fair value of the intangible assets are management's five-year projections, estimated long-term growth rate of 2.5%, and an after-tax discount rate applicable to the intangible assets estimated at approximately 12%. The discount rate incorporates the risk-free rate as well as risks and uncertainties associated with the projected operations. Goodwill is not expected to be deductible for tax purposes.

The accompanying Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the three months ended March 31, 2019 includes net revenue of $10.5 million and net loss of $4 million of PMACC and SJW since the January 7, 2019 acquisition date.

5. Accounts Receivable

The Company's accounts receivable are comprised of the following at March 31, 2019:

		March 31, 2019
Trade receivables	$	2,040,733
Sales tax receivables		-
Total		2,040,733
Less allowance for credit loss		-
Total accounts receivable	**$**	**2,040,733**

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for impairment. Financial assets measured at amortized cost are assessed for impairment at the end of each reporting period. Impairment provisions are estimated using the expected credit loss impairment model where any expected future credit losses are provided for, irrespective of whether a loss event has occurred at the reporting date.

The Company provides trade credit to its wholesale customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for wholesale customers is assessed on a quarterly basis and an allowance for credit loss is recorded where required. Credit risk is limited for receivables from retail customers as the majority of retail sales are transacted with cash. All amounts payable to the Company from debit card processors were collected after year-end.

(Expressed in United States Dollars except share amounts)

There were no accounts receivable as at December 31, 2018, other than with related parties, as disclosed.

The Company assesses the risk of collectability of accounts receivable on a quarterly basis. Estimates of expected credit losses take into account the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in, and forecasts of, future economic conditions that affect default risk. Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses through the use of an allowance for credit loss provision. The allowance for credit loss reflects the Company's best estimate of probable losses inherent in the trade receivables accounts.

Based on the Company's assessment, there was no allowance for credit losses recorded as at March 31, 2019.

The aging of the Company's accounts receivable is as follows at March 31, 2019:

		March 31, 2019
Current	$	965,354
1 – 30 days		1,020,790
31– 60 days		10,000
61 – 90 days		5,260
Over 90 days		39,329
Total	**$**	**2,040,733**

6. Inventories

The Company's inventory includes both purchased items and internally produced inventory. The Company's inventory is comprised of the following items at March 31, 2019:

		March 31, 2019
Raw Materials	$	-
Work-in-Process		1,925
Finished Goods		2,173,368
Total Inventory	**$**	**2,175,293**

During the three months ended March 31, 2019, inventory expensed to cost of goods sold was $7,250,007. Management determined net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimate costs necessary to make the sale. During the three months ended March 31, 2019, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of $92,344, which is recorded as a component of the cost of goods sold – wholesale.

There was no inventory as at December 31, 2018.

(Expressed in United States Dollars except share amounts)

7. Biological Assets

Biological assets consist of cannabis plants. The changes in the carrying value of biological assets are as follows for the three months ended March 31, 2019:

		March 31, 2019
Balance at beginning of period	$	-
Acquired as part of business combination (Note 4)		615,075
Costs capitalized		1,949,342
Change in fair value less cost to sell due to biological transformation		(938,126)
Transferred to inventory upon harvest		(575,790)
Balance at end of period	**$**	**1,050,501**

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price less costs per gram to sell.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

Biological assets at March 31, 2019 include $322,910 of depreciation expense incurred in the quarter.

The Company did not have biological assets at December 31, 2018.

The following table quantifies each significant unobservable input, and provides the impact a 10% increase or decrease in each input would have on the fair value of biological assets:

	Assumptions:	As at March 31, 2019	
		Input	10% change
i	Weighted average of expected loss of plants until harvest [a]	8%	$ 8,984
ii	Expected yields (dry grams of cannabis per plant) [b]	54 grams	$ 103,368
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at period-end	51%	$ 103,368
iv	Estimated selling price (per gram) [c]	$1.77 per gram dried flower $0.30 per gram dried trim	$ 227,359
v	After harvest cost to complete and sell (per gram)	$0.94 per gram dried flower $0.19 per gram dried trim	$ 123,991

[a] Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.
[b] Expected average yields for cannabis plants vary based on the mix of strains and number of plants existing at each reporting date. As of March 31, 2019, it was expected the Company's biological assets would yield 25 grams of dried flower per plant and 29 grams of dried trim per plant.
[c] The estimated selling price (per gram) represents the actual average sales price for the Company's strains sold as bulk products.

(Expressed in United States Dollars except share amounts)

The Company estimates the harvest yields for cannabis at various stages of growth. As of March 31, 2019, it is expected that the Company's biological assets will yield approximately 1,998,753 grams of dry cannabis flower and 2,282,813 grams of dry trim when harvested. The fair value adjustments on biological assets are presented separately on the Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

8. Prepaid Expenses

As of March 31, 2019, and December 31, 2018, prepaid expenses were comprised of the following:

	March 31, 2019	December 31, 2018
Insurance and Rent	$ 213,972	$ 23,584
Advances made to suppliers and consultants	130,815	46,000
Excise taxes	463,755	-
Payroll and income taxes	237,819	-
Taxes and fees	115,406	-
Other	118,445	-
Total Prepaid Expenses	**$ 1,280,212**	**$ 69,584**

9. Investments and Advances

The changes in investments and advances are as follows for the three months ended March 31, 2019:

		Investments Equity Method	Advances	Total
Balance as at December 31, 2018		$ -	$ -	$ -
Acquired as part of business combination	Note 4	160,000	1,052,807	1,212,807
Additions	Note 9 (a&d)	-	399,999	399,999
Balance as at March 31, 2019		**$ 160,000**	**$ 1,452,806**	**$ 1,612,806**

San Leandro Wellness Solutions, Inc. (SLWS)

On January 7, 2019, the Company acquired a 50% interest in SLWS valued at $160,000 as part of the PMACC/SJW business combination (Note 4).

The 50% investment was subsequently accounted for under IAS 28 – Investments in Associates and Joint Ventures. For the period January 7, 2019 to March 31, 2019, PMACC's share of the loss from operations of SLWS was $0. The carrying value of the investment on March 31, 2019 was $160,000.

In addition to the investment in SLWS on January 7, 2019, SLWS previously had a receivable from PMACC for $1,052,807 that was acquired as part of the net assets acquired in the PMACC/SJW acquisition. From January 7, 2019 to March 31, 2019, the Company advanced funds to SLWS to assist with finalizing the construction project for the dispensary. The outstanding advances receivable totaled $1,452,806 on March 31, 2019.

10. Property, Plant and Equipment

Changes in the Company's property, plant and equipment consisted of the following for the three months ended March 31, 2019 and the year ended December 31, 2018:

(Expressed in United States Dollars except share amounts)

	Land	Agricultural buildings	Agricultural equipment	CIP	Furniture and fixtures	Vehicles	Office, computer and security equipment	Leasehold improvements	TOTAL
At Cost									
As at December 31, 2017	$ 3,404,572	$ 2,816,892	$ 802,457	$ 8,358,892	$ 40,654	$ -	$ 720,719	$ 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	3,404,572	5,150,611	3,612,756	6,022,308	40,654	-	725,574	2,572	18,959,047
Additions	-	1,009,426	669,777	267	-	-	-	20,742	1,700,212
Business acquisition	-	-	-	7,500	-	29,530	1,128,406		1,165,436
Reclass on Completed Phase of Construction	-	-	-	(313,747)	-	-	-	-	(313,747)
As at March 31, 2019	$ 3,404,572	$ 6,160,037	$ 4,282,533	$ 5,716,328	$ 40,654	$ 29,530	$ 1,853,980	$ 23,314	$ 21,510,948
Accumulated depreciation									
As at December 31, 2017	$ -	$ 247,148	$ 178,110	$ -	$ 7,307	$ -	$ 113,933	$ 28	$ 546,526
Depreciation expense	-	442,421	567,815	-	5,807	-	159,975	172	1,176,190
As at December 31, 2018	-	689,569	745,925	-	13,114	-	273,908	200	1,722,716
Depreciation expense	-	123,397	189,374	-	1,452	2,942	68,956	21,590	407,711
As at March 31, 2019	$ -	$ 812,966	$ 935,299	$ -	$ 14,566	$ 2,942	$ 342,864	$ 21,790	$ 2,130,427
Net Book Value									
As at December 31, 2017	3,404,572	2,569,744	624,347	8,358,892	33,347	-	606,786	2,544	15,600,232
As at December 31, 2018	3,404,572	4,461,042	2,866,831	6,022,308	27,540	-	451,666	2,372	17,236,331
As at March 31, 2019	$ 3,404,572	$ 5,347,071	$ 3,347,234	$ 5,716,328	$ 26,088	$ 26,588	$ 1,511,116	$ 1,524	$ 19,380,521

Depreciation expense of $407,711 was recorded for the three months ended March 31, 2019, of which $322,910 was included in cost of goods sold. Depreciation expense of $196,999 was recorded for the three months ended March 31, 2018, none of which was included in cost of goods sold.

11. Intangible Assets and Goodwill

During the three months ended March 31, 2019, the Company acquired $51.8 million of intangible assets and recognized $37.9 million of goodwill as a result of its acquisitions of PMACC and SJW (see Note 4). The Company has assigned an indefinite life to its licenses and goodwill.

12. Right-of-Use Assets and Lease Liabilities

Right of use Assets

The Company leases various buildings and as part of its normal course of business. On January 1, 2019, the Company adopted IFRS 16 Leases, which requires a lessee to recognize a right-of-use asset (representing its right to use the underlying leased asset) and a lease liability (representing its obligation to make lease payments). IFRS 16 is required for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Company has elected not to restate comparative figures in accordance with the transitional provisions in the standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. The Company did not recognize any right-of-use assets or lease liabilities as of January 1, 2019.

The following is a summary of the activity in the Company's right-of-use assets for leases for which the Company is a lessee for the three months ended March 31, 2019:

(Expressed in United States Dollars except share amounts)

		Right of Use Asset - Buildings
Cost		
Balance at January 1, 2019	$	-
Additions:		
Acquisition of PMACC & SJW (Note 4)		1,491,113
Lineage RTO Transaction (Note 4)		-
Acquisition of SLWS (Note 4)		-
Lease modifications		-
At March 31, 2019	**$**	**1,491,113**
Accumulated amortization		
Balance at Jan 1, 2019	$	-
Amortization Expense		146,440
At March 31, 2019	**$**	**146,440**
Net book value		
At January 1, 2019	$	-
At March 31, 2019	**$**	**1,344,673**

Lease Liabilities

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 7, 2019 (for the leases acquired in the PMACC and SJW acquisitions), the weighted average of which is 15.00%. In the initial application of the standard, the Company used the following practical expedients:

- using a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on previous assessments of whether leases are onerous,
- accounting for operating leases with a remaining lease term of 12 months or less as at the date of initial application as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application,
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease, and
- not to reassess whether a contract is or contains a lease at the date of initial application.

The Company had no operating lease commitments as at December 31, 2018 or lease liabilities recognized as at January 1, 2019.

The following is a summary of the activity in the Company's lease liability for the three months ended March 31, 2019:

		March 31, 2019
Acquired lease liabilities (Note 4)	$	2,552,456
Lease payments		(127,772)
Interest expense		94,512
Ending lease liability	$	2,519,196
Less: current portion		(362,531)
Non-current lease liability	**$**	**2,156,665**

The Company recognized no expenses related to short-term leases and leases of low-value assets for the three months ended March 31, 2019.

(Expressed in United States Dollars except share amounts)

The maturity of contractual undiscounted lease obligation payments are as follows:

At March 31, 2019		
Due within one year	$	773,429
Due within one to five years		2,816,365
Due after five years		-
Total	**$**	**3,589,794**

13. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchases incurred in the normal course of business.

The Company's accounts payable and accrued liabilities consist of the following at March 31, 2019 and December 31, 2018:

	March 31, 2019		December 31, 2018	
Accounts payable	$	8,379,000	$	1,720,093
Accrued liabilities		3,929,058		1,033,104
Accrued payroll		1,472,894		450,290
Series B Payable		-		1,776,646
Total accounts payable and accrued liabilities	**$**	**13,780,952**	**$**	**4,980,133**

As part of the October 2018 offering of the Series B Debentures (Note 15), the Company oversubscribed the round of funding. The additional proceeds were held in a trust account and are reflected within Accounts Payable and Accrued Liabilities as of December 31, 2018. The funds were released from the trust account and included in the Series B Debenture offering that was completed in February 2019.

14. Notes Payable

As of March 31, 2019 and December 31, 2018, notes payable consisted of the following:

		March 31, 2019		December 31, 2018	
Term loan	(a)	$	1,120,000	$	1,780,000
Financing arrangement	(b)		9,827,227		9,709,474
Total notes payable		$	10,947,227	$	11,489,474
Net amount		$	10,947,227	$	11,489,474
Less notes payable, current portion			(1,120,000)		(1,780,000)
Notes payable, net of current portion		**$**	**9,827,227**	**$**	**9,709,474**

(a) Term Loan

On July 18, 2017, Savature, Inc. ("Savature"), an entity the Company acquired via a reverse triangular merger in July 2018, entered into a loan agreement (the "CFP Loan") with CFP. 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 carried a 15% annual interest rate and had 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, FLRish received a notice of default (the "Notice") from CFP. Management responded to the Notice and believes all items identified in the Notice have been cured. In response, FLRish asserted its default remedies against CFP to reduce the loan principal consistent with terms outlined in the loan documents. On December 17, 2018, FLRish entered into a settlement agreement with CFP, pursuant to which the parties agreed to settle all claims with respect to the CFP Loan (the "CFP Settlement Agreement").

The terms of the CFP Settlement Agreement provide that FLRish shall pay to CFP the outstanding principal balance at December 17, 2018 as follows: $2,000,000 payable in monthly installments ending in September 2019 and issuance of 8,624 Series B Debenture Units on the same terms as those offered in the 2018 Private Placements. An initial payment of $220,000 was made the date the Company entered the CFP Settlement Agreement. The CFP Settlement Agreement also provides a 0% annual interest rate for the remaining monthly installments. The Company recorded a gain on extinguishment of $150,000 for the settlement of principal amounts outstanding with equity shares in the fourth quarter 2018.

As of March 31, 2019 and December 31, 2018, the principal balance was $1,120,000 and $1,780,000, respectively. The term loan is classified as current.

(b) Financing Arrangement

On July 14, 2017, the Company entered into a sales transaction with CFP for the Farm. The total sale price for the Farm was $9,080,000, and included the sale of the real property, and all furniture, fixtures, and equipment attached to the real property.

Subsequent to the sale of the Farm, the Company entered into a lease agreement (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 has the option for two months, at every t12-month interval, to require that the Company purchase the Farm from CFP.

The Company did not account for the financing transaction as a sale in July 2017, in consideration of the call and put options included in the lease agreement. 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 arrangement for the $9.1 million initially received as part of the agreement. Payments are applied over the term the Lease, with the Company exercising their $14.5 million purchase option at the end of the Lease term. The Lease grants CFP a put option to sell the property 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 property from CFP. 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 $9,080,000 loan and a purchase at the end of the Lease term. The balance includes $9,080,000 principal and accrued interest of $747,227 at March 31, 2019 and $629,474 as of December 31, 2018.

(Expressed in United States Dollars except share amounts)

A reconciliation of the beginning and ending balances of notes payable for the three months ended March 31, 2019 and the year ended December 31, 2018 is as follows:

	March 31, 2019	December 31, 2018
Balance at the beginning of the period	$ 11,489,474	$ 25,870,342
Cash additions	-	5,400,000
Cash payments	(660,000)	(1,694,097)
Foreign exchange gain	-	(48,324)
Series B debentures conversion- CFP	-	(6,433,420)
Interest accruals	322,053	3,071,265
Series A conversion	-	(12,304,398)
Share issuance costs	-	(232,500)
Interest cash payments	(204,300)	(2,139,394)
Balance at end of period	**$ 10,947,227**	**$ 11,489,474**

15. Convertible Debentures

Series B Convertible Debentures

A reconciliation of the beginning and ending balances of the Series B Debenture Units as of March 31, 2019 and December 31, 2018 is as follows:

	March 31, 2019	December 31, 2018
Balance, beginning of the period	$ 16,036,285	$ -
Cash Additions	1,857,165	26,410,135
Series B debentures conversion- CFP	-	6,433,420
Derivative Component of Debt	(241,301)	(15,852,898)
Foreign exchange gain,net	372,381	(664,472)
Interest Accretion	1,860,014	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, end of the period	**$ 19,884,544**	**$ 16,036,285**

In October 2018, the Company completed the initial closing of the 2018 Private Placements, with the issuance and sale of 6,212 Series B Debenture Units for aggregate gross proceeds of $4,706,417 (CAD $6,212,000). On November 16, 2018, the Company completed the second closing of the 2018 Private Placements with the issuance and sale of 28,566 Series B Debenture Units, for aggregate gross proceeds of $21,703,718 (CAD $28,566,000). On February 6, 2019, the Company issued an additional 2,450 Series B Debenture Units (the "February 2019 Private Placement") for gross proceeds of $1,857,165 (CAD $2,450,000). These funds were advanced to the Company in 2018 and were included in accounts payable (Note 13) until the Company increased the permitted amount in the Convertible Note Indenture to be issued in 2019.

Pursuant to an agency agreement dated October 30, 2018, as amended on February 4, 2019, Foundation Markets Inc. ("FMI"), a related party to the Company post-RTO Transactions, agreed to act as agent in connection with the issuance and sale of the Series B Debenture Units issued and sold to non-U.S. purchasers pursuant to the 2018 Private Placements and the February 2019 Private Placement. FMI received a cash commission of $754,694 (CAD $992,154) equal to 7% of the aggregate proceeds of the 2018 Private Placements and the February 2019 Private Placement, and 168,303 broker warrants valued at $350,060 in consideration for acting as agent in connection with the 2018 Private Placements (the "Broker Warrants").

(Expressed in United States Dollars except share amounts)

In addition, on December 17, 2018, the Company agreed to issue 8,624 Series B Debenture Units to CFP in relation to the CFP Settlement Agreement, worth $6,433,420 (CAD $8,624,000). 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").

The Series B Debentures are governed by a debenture indenture dated as of October 30, 2018 (the "Debenture Indenture"), as amended by the first supplemental indenture dated February 6, 2019, between FLRish and Odyssey Trust Company, as debenture trustee. The Series B Debentures mature on October 30, 2021 (the "Maturity Date"), and bear interest at a rate of 12.0% per annum, payable, semi-annually in arrears. At the Company's option, interest will be payable in cash or by issuing Series B Common Shares of FLRish ("Underlying Shares") at a price of CAD $6.90 per share, without further action on the part of the holders of the Series B Debentures.

The Series B Warrants are governed by a trust 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. The Series B Warrants expire on October 30, 2020, subject to adjustment and/or acceleration in certain circumstances, and have an exercise price of CAD $8.60. As part of the 2018 Private Placements, the February 2019 Private Placement, and the issuance of the Series B Debenture Units pursuant to the CFP Settlement Agreement, the Company issued 3,025,686, 213,150 and 750,288 Series B Warrants, respectively.

Each Series B Debenture Unit contains a conversion feature and a warrant. The conversion feature and warrants do not meet equity classification, as they contain contractual terms that result in a potential adjustment in the conversion price and the conversion price and exercise price of the warrants issued are denominated in a currency other than the Company's functional currency.

In failing the equity classification, the conversion feature and warrants were accounted for as embedded derivative liabilities as their fair value is affected by changes in the fair value of the Company's shares. The effect is that the Series B Debenture host debt instrument is accounted for at amortized cost, with the embedded derivative liabilities being measured at fair value with changes in value being recorded in profit or loss. The Series B Warrants are outstanding as of March 31, 2019 (Note 16).

16. Derivative Liabilities

The following table provides a reconciliation of the beginning and ending balance of derivative liabilities and the change in fair value of derivative liabilities:

	Series B Debentures Conversion Feature	Series B Warrants Derivative Liability	Total
Balance as of January 1, 2018	$ -	$ -	$ -
Fair value of derivative liabilities on issuance date	9,764,246	6,088,652	15,852,898
Change in fair value of derivative liabilities	(621,945)	(184,325)	(806,270)
Balance as of December 31, 2018	**9,142,301**	**5,904,327**	**15,046,628**
Fair value of derivative liabilities on issuance	147,305	93,996	241,301
Change in fair value of derivative liabilities	(4,267,947)	(5,654,776)	(9,922,723)
Balance as of March 31, 2019	**$ 5,021,659**	**$ 343,547**	**$ 5,365,206**

Series B Debenture Unit Derivative Liabilities

As detailed in Note 15, the Company issued Series B Debenture Units during 2018 that included certain conversion features that failed equity classification. In addition, in February 2019, the Company issued additional Series B Debenture Units that also included certain conversion features that failed equity classification. The Monte Carlo Simulation option-pricing model was used to estimate the fair value of the derivative liabilities (conversion feature and warrants) upon the February 2019 issuance and included in the table above.

(Expressed in United States Dollars except share amounts)

The following assumptions were used to value the Series B conversion feature derivative liabilities issued on February 6, 2019:

	February 06, 2019
Risk Free Interest Rate	1.70 - 1.83%
Exercise Price - US $	5.23
Share Price - US $	3.28
Expected Volatility	71.7% - 116.4%
Expected Remaining Life	0.10 - 3.00 years
Fair Value	$ 147,305

The Series B Warrants were valued at issuance and at each reporting period and remain outstanding as at March 31, 2019.

The Company used the Monte Carlo Simulation option-pricing model to estimate the fair value of the derivative liabilities (conversion feature and warrants) at issuance and at each reporting date. The Monte Carlo model uses certain Level 2 and Level 3 inputs in its valuation model. The key Level 2 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the Company's Shares, (ii) the risk-free interest rate, and (iii) the expected life of the instruments. The risk-free interest rate is based on data from the Federal Reserve Statistical Release and is extrapolated for interim periods. The expected lives are based on the anticipated date of public listing. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable and that have trading and volatility history prior to the Company going public. Subsequent to the RTO Transaction, volatility was calculated using the stock price returns from the same pool of comparable public companies, as there was insufficient trading history in the Company's shares. The Level 3 inputs relate to the probability of conversion.

The following assumptions were used to value the Series B conversion feature derivative liabilities during the period ended March 31, 2019:

	March, 31 2019
Risk Free Interest Rate	2.31%
Exercise Price - US $	5.23
Share Price - US $	2.80
Expected Volatility	101.00%
Expected Remaining Life	0.12-2.58 years
Fair Value	$5,021,659

The following assumptions were used to value the Series B Warrant derivative liabilities issued during and for the period ended March 31, 2019:

	March, 31 2019	February 06, 2019
Risk Free Interest Rate	2.31%	1.70% - 1.83%
Exercise Price - US $	6.53	6.53
Share Price - US $	2.80	3.28
Expected Volatility	95.3% - 104%	71.7 - 116.4%
Expected Remaining Life	0.12 - 1.58 year	1 year
Fair Value	$ 343,547	$ 93,996

These warrants are outstanding at March 31, 2019.

17. Provisions

IRC Section 280E

Certain subsidiaries of the Company operate in the cannabis industry and are subject to Internal Revenue Code ("IRC") Section 280E, which prohibits businesses engaged in the trafficking of controlled substances (including cannabis as specified in Schedule I of the Controlled Substances Act) from deducting normal business expenses associated with the sale of cannabis. This can result in permanent tax differences resulting from ordinary and necessary business expenses which are deemed non-allowable under IRC Section 280E. Many of the central issues relating to the interpretation of Section 280E remain unsettled, and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E). IFRIC 23 - *Uncertainty over Income Tax Treatments* provides guidance that adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the positions taken by the Internal Revenue Service and the findings of the Tax Court, the Company has determined that a reserve for an uncertain tax position should be recorded for all years subject to statutory review. Though the Company is actively appealing the Tax Court decision that was issued on November 29, 2018, an uncertain tax position has been recorded based on the unknown outcome of the case. As of March 31, 2019, the reserve totaled $34.7 million (December 31, 2018 – $nil), a sum which includes the separate tax proceedings described below. The Company does not currently expect any of the cases described below, any resultant potential liabilities, or any possible payments resulting from the cases to be resolved within 12 months of the issuance date of these financial statements.

PMACC

PMACC is currently involved in two (2) 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 on November 29, 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. 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 its ruling, the Tax Court rejected the assertion of penalties by the Internal Revenue Service ("IRS"), finding 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. Accordingly, management has not included penalties in the estimated provision at period-end.

In December, 2019, PMACC appealed the Tax Court decision to the United States Court of Appeals for the Ninth Circuit, which is expected to hear 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. The Company filed its initial petition in this case to the Tax Court on February 13, 2020. This matter is not expected to be heard on its merits for several years, by which time the Company expects that the Ninth Circuit appeal mentioned above will have been decided and will presumably dictate the outcome of this proceeding.

San Jose Wellness

SJW has two (2) 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 the second 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. The second SJW case is proceeding without trial and briefs are being submitted. The Company expects that ultimately the SJW cases will also be controlled by the outcome of the PMACC Ninth Circuit appeal proceedings.

(Expressed in United States Dollars except share amounts)

The Company, after consulting with outside counsel, believes that only its subsidiaries that are either cannabis license holders or are otherwise plant-touching are subject to IRC Section 280E. However, there is a general risk that the IRS could attempt to apply Section 280E to other subsidiaries of the Company, in which instance the tax liability of the Company could be greater. While the Company would contest such efforts, the outcome of any such litigation is unpredictable.

18. Share Capital

FLRish Share Capital

On April 29, 2018, FLRish filed a Certificate of Amendment to the Amended Articles that revised the amounts of authorized stock in each series as follows:

- 11,000,000 shares of Series A Common Stock;
- 40,000,000 shares of Series B Common Stock;
- 40,000,000 shares of Series C Common Stock;
- 6,250,000 shares of Series A-1 Preferred Stock and
- 6,250,000 shares of Series A-2 Preferred Stock.

In addition, upon such amendment and restatement of the existing articles, 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 following is a reconciliation of the issued and outstanding shares during the three months ended March 31, 2019 and the year ended December 31, 2018:

	Series A-1	Series A-2	Common	Series A	Series B
Balance, December 31, 2017	-	-	**2,362,372**	-	-
Conversion of Common stock to Series A Common	-	-	(2,362,372)	2,362,372	-
Escrowed upon issuance for PMACC purchase option	-	-	-	-	11,156,626
Conversion of Junior and Senior Notes	4,924,701	1,422	-	-	-
Issuance of Series A-1 Preferred	1,325,299	-	-	-	-
Issuance on exercise of options	-	-	-	2,084,375	-
Issuance in lieu of Series B Convertible Debentures interest payment	-	-	-	-	86,638
Balance, December 31, 2018	**6,250,000**	**1,422**	**-**	**4,446,747**	**11,243,264**
Issuance in lieu of Series B Convertible Debentures interest payment	-	-	-	-	399,153
Reserved shares issued upon PMACC purchase option	-	-	-	-	1,204,819
Issuance as per PMACC purchase option	-	-	-	-	2,846,429
Issuance on exercise of options	-	-	-	25,000	-
Balance, March 31, 2019	**6,250,000**	**1,422**	**-**	**4,471,747**	**15,693,665**

Series A-1 and Series A-2 Preferred Stock of FLRish

The shares of Series A-1 Preferred Stock of FLRish (the "Series A-1 Preferred Shares") was a class of voting preferred stock, one (1) vote per 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. Series A-1 Preferred Shares accrued 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, with redemption rights equal 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 did not occur prior to October 30, 2019, the Series A-1 Preferred Shares were 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 issue price. This class of stock was issued in the Series A Offering (as hereinafter defined) and upon conversion of the certain convertible promissory notes of the Company and the Murray Fields & Company, LLC ("Murray Fields") note (see Notes 20 and 22(c)).

The Series A-2 Preferred Stock was a class of preferred stock equivalent to the Series A-1 Preferred Stock but without voting rights. The Board has the authority to set the rights, privileges, preferences and obligations of any wholly unissued series of preferred stock.

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

As of March 31, 2019, 6,250,000 Series A-1 Preferred Shares, at no par value, were issued and outstanding and 1,422 Series A-2 Preferred Shares were issued and outstanding. The Series A-1 Preferred Stock and Series A-2 Preferred Stock were classified as liabilities (see Note 20).

Series A Common Stock

The Series A Common Stock of FLRish was a class of voting common stock that possessed one (1) voting right per share and was to be adjusted in the event of any subdivision or combination of Series B Common Shares or shares of Series C Common Stock. 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 March 31, 2019, 4,471,747 shares of Series A Common Stock, at no par value, were outstanding.

Series B Common Stock

The Series B Common Stock of FLRish was a class of voting common stock that possessed one (1) voting right per share.

As of December 31, 2018, there were 11,243,264 Series B Common Shares outstanding, at no par value. As of December 31, 2018, 1,204,819 Series B Common Shares were held in reserve for issuance. These shares were issued during 2019 as part of the exercise of the Merger Option relating to PMACC (see Note 4).

As of March 31, 2019, an aggregate of 399,153 of Series B Common Shares were issued to holders of debentures in satisfaction of the payment of accrued interest. 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.

At March 31, 2019, 15,693,665 shares of Series B Common Stock, at no par value, were outstanding.

Series C Common Stock

The Series C Common Stock of FLRish was a class of non-voting common stock that possessed no voting rights. No shares of Series C Common Stock were issued or reserved for issuance as of March 31, 2019.

19. Contributed Surplus

FLRish Stock Options

(Expressed in United States Dollars except share amounts)

The Company maintains an equity incentive plan (the "Plan") whereby certain key employees, officers, directors, consultants and advisors may be granted stock options, restricted share awards ("RSAs"), restricted share units, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

The stock options awarded vest on a graded-vesting schedule, generally, over a two-year period and expire 10 years after the grant date. The Company uses a graded vesting schedule to record compensation expense, which results in greater compensation expense earlier in the vesting period after an award is granted. All stock options granted are settled in the Company's shares. If an employee terminates employment with the Company prior to awards vesting, the unvested awards are forfeited and the historical compensation expense for unvested options is reversed in the period of termination.

The following table summarizes the stock option activities for the three months ended March 31, 2019 and the year ended December 31, 2019:

	Number of options outstanding	Weighted average exercise price
	#	$
Balance, December 31, 2	**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, 2	**5,212,944**	**1.343**
Exercise of stock options	(25,000)	0.050
Expired	(31,667)	9.616
Balance, March 31, 2019	**5,156,277**	**1.298**

During the three months ended March 31, 2019 and 2018, the Company recorded aggregate share-based compensation expense of $416,021 and $10,542, respectively, for all stock options vesting during the periods. During the three months ended March 31, 2019 and 2018, the Company received cash consideration of $1,250 and $938, respectively, for the exercise of 25,000 and 18,750 vested stock options.

For the year ended December 31, 2018, the grant date fair value of options granted was determined using the Black-Scholes option-pricing model with the following assumptions:

	2018
Valuation date share price	$3.74 – $4.71
Exercise price	$0.05 - $5.31
Cumulative volatility	100%
Expected life	2.50 – 7.51 years
Risk free interest rate	2.03% - 2.47%
Dividend yield	0%

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.

(Expressed in United States Dollars except share amounts)

As of March 31, 2019, the FLRish Options outstanding and exercisable and with the corresponding exercise price and weighted average remaining life is as follows:

Expiry date	Date of Grant	Number of options outstanding	Number of options exercisable	Exercise price (USD)	Weighted average remaining life
August 1, 2026	August 1, 2016	1,485,357	1,381,190	$ 0.050	7.34
August 1, 2026	August 1, 2021	1,193,878	1,193,878	$ 0.055	7.34
July 26, 2027	July 26, 2017	573,125	295,250	$ 0.050	8.32
December 4, 2027	December 4, 2017	27,375	11,406	$ 4.150	8.68
April 25, 2028	April 25, 2018	1,463,542	891,576	$ 4.150	9.07
May 7, 2028	May 7, 2018	15,000	14,375	$ 4.150	9.10
May 15, 2028	May 15, 2018	43,000	6,000	$ 4.150	9.13
May 15, 2028	May 15, 2018	265,000	-	$ 0.050	9.13
June 25, 2028	June 25, 2018	10,000	8,750	$ 4.150	9.24
September 12, 2028	September 12, 2018	50,000	16,667	$ 4.150	9.45
November 7, 2028	November 7, 2018	10,000	1,250	$ 5.310	9.60
November 29, 2028	November 29, 2018	20,000	1,667	$ 4.150	9.66
Totals		**5,156,277**	**3,822,009**		**8.09**

The weighted average remaining contractual life of outstanding options as of March 31, 2019 is 8.09 years.

Restricted Stock Awards

On April 25, 2018, the Company granted 769,000 RSAs pursuant to the Plan, to certain officers of the Company (the "Participants"). Each RSA entitles the Participants to one share of the Company's common stock. Under the terms of the grants, when RSAs are issued to Participants, the shares issued vest over 24 months from the date of grant. No RSAs were granted in 2019.

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 three months ended March 31, 2019 and 2018, the Company recorded share-based compensation of $305,905 and $0, respectively, in relation to the vesting of the RSAs.

20. Preferred Series A Shares

On April 30, 2018, FLRish issued 1,325,299 shares of Series A-1 Preferred Shares to various parties in exchange for aggregate gross proceeds of $5,500,000 pursuant to the Series A Offering. As a result of the Series A Offering, $12,304,398 worth of convertible promissory notes (issued by FLRish during 2015, 2016 and 2017), and accrued interest thereon, plus $3,663,483 representing the fair value of the derivative liability of the conversion feature of such notes were converted into 4,924,701 Series A-1 Preferred Shares and 1,422 Series A-2 Preferred Shares. In the second quarter of 2018, FLRish recorded a loss of $4,475,564 related to the conversion in the Consolidated Statement of Loss and Comprehensive Loss. FLRish also recorded $292,118 in share issuance costs in the second quarter of 2018 for expenses incurred related to the Series A Offering.

The Series A-1 Preferred Shares is a class of voting preferred stock that was issued in the Series A Offering and upon conversion of certain convertible promissory notes of the Company. 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 of $5.20 per share plus accrued dividends or the Fair Market Value as of the unqualified merger or sale or on the redemption date.

(Expressed in United States Dollars except share amounts)

As of December 31, 2018, 6,250,000 Series A-1 Preferred Shares, at no par value, were issued and outstanding, and 1,422 shares of Series A-2 Preferred Shares were issued and outstanding.

The Series A-1 Preferred Share were convertible into additional Series B Common Shares if a qualified transaction did not occur prior to October 30, 2019, in an amount equal to the percentage obtained by dividing the accrued dividend on such shares by the original Series A-1 Preferred Share issue price.

The Series A-1 Preferred Shares and Series A-2 Preferred Shares (collectively, the "Preferred Shares") are compound financial instruments, containing a derivative liability for the conversion option, redemption option, 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 – *Financial Instruments.*

The Preferred Shares were issued for cash at $4.15 per share in connection with the Series A Offering on April 30, 2018. The Company concluded that the cash consideration paid by the investors represents the fair value of the Preferred Shares on the date of issuance.

As at March 31, 2019, the Company estimated the fair value of the Preferred Shares using a Hybrid Method, a blend of the PWERM and an OPM primarily based on the October 2018 convertible debenture private placement rolled forward to March 31, 2019. The following key assumptions were used in the valuation:

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	101.0%
IPO - Early	50%	Risk Free Rate	2.2%
IPO - Mid	25%	Expected Life	2.6 years
IPO - Late	25%	Implied Enterprise Value (USD mm)	$66.7
		Dividend Yield	0%

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

The fair value of the Preferred Stock on March 31, 2019 was $4.25 per share, resulting in a decrease to the Series-A Preferred Shares in the amount of $1,773,395. The change in the fair value was recognized under fair value change in derivative liabilities and preferred shares in the consolidated statements of loss and comprehensive loss during the first quarter of 2019.

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 March 31, 2019. Accordingly, no accrued dividends were separately recorded in the financial statements as of March 31, 2019.

The Preferred Shares fair valued at $26,585,962 was outstanding at March 31, 2019 (December 31, 2018 - $28,359,357).

(Expressed in United States Dollars except share amounts)

21. Reserve for Warrants

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

	Number of warrants outstanding	Weighted average exercise price	Weighted average exercise price
	#	CAD $	$
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
Balance, December 31, 2018	**4,087,518**	**8.47**	**6.28**
Issuance of Series B Warrants	213,150	8.60	6.45
Balance, March 31, 2019	**4,300,668**	**8.48**	**6.28**

The Company completed the initial closing of the 2018 Private Placements on October 30, 2018, with the issuance and sale of 6,212 Series B Debenture Units for aggregate gross proceeds of $4,706,417 (CAD $6,212,000). On November 16, 2018, the Company completed the second closing of the 2018 Private Placements with the issuance and sale of 28,566 Series B Debenture Units for aggregate gross proceeds of $21,703,718 (CAD $28,566,000). On February 6, 2019, the Company issued an additional 2,450 Series B Debenture Units for gross proceeds of $1,857,165 (CAD $2,450,000) as part of the February 2019 Private Placement.

In addition, on December 17, 2018, the Company agreed to issue 8,624 Series B Debenture Units to CFP in relation to the CFP Settlement Agreement, worth $6,433,420 (CAD $8,624,000).

Each Series B Debenture Unit is comprised of CAD $1,000 principal amount of Series B Debentures and 87 Series B Warrants. Each Series B Warrant is exercisable into one Underlying Share at a price of C$8.60 per share until October 30, 2020, subject to adjustment and/or acceleration in certain circumstances. The Series B Debentures are governed by the Debenture Indenture and the Series B Warrants are governed by the Warrant Indenture. The Series B Warrants are being accounted for as a derivative liability (Note 16).

In conjunction with the issuance of the Series B Debenture Units in 2018, the Company issued the Broker Warrants. Each Broker Warrant is exercisable into one Underlying Share at an exercise price of C$6.90 per share until the earlier of 60 months from the date of issuance, 24 months from the completion of the RTO Transaction, 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 which vested upon issuance and were recorded as debt issuance costs. There were also 143,241 advisory warrants (the "Advisory Warrants") issued at a value of $282,668, pursuant to a supplemental advisory agreement dated December 3, 2018 between FLRish and FMI Capital Advisory Inc., a related party to the Company post-RTO Transaction. The Advisory Warrants also vested upon issuance and were recorded as Professional Fees in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The Broker Warrants and Advisory 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:

(Expressed in United States Dollars except share amounts)

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

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.

Warrant issuances for the three months ended March 31, 2019

Series B Warrants

On February 6, 2019, the Company issued 213,150 Series B Warrants on conversion of the Series B Debentures. Each Series B Warrant is exercisable into one (1) Underlying Share at a price of C\$8.60 per share until October 30, 2020, subject to adjustment and/or acceleration in certain circumstances. The Series B warrants are being accounted for as a derivative liability (Note 16).

The following table summarizes information of warrants outstanding as at March 31, 2019:

Date of expiry	Number of warrants outstanding	Exercise price	Exercise price	Weighted average remaining life
	#	CAD	\$	Years
October 30, 2020	3,989,124	8.60	6.63	1.78
May 31, 2021	311,544	6.90	5.32	2.44
Total	**4,300,668**	**8.48**	**6.54**	**1.83**

22. Related Party Transactions and Key Management Compensation

(a) Key Management Compensation

Key management includes directors and officers of the Company. Total compensation (comprised of salaries and share based payments) awarded to key management for the three months ended March 31, 2019 and 2018 was as follows:

	March 31, 2019	March 31, 2018
Short-Term Employee Benefits, including Salaries and Director Fees	\$ 620,487	\$ 301,268
Share-Based Compensation – Directors & Executives	526,691	2,972
Total	**\$ 1,147,178**	**\$ 304,240**

As at March 31, 2019 and December 31, 2018, no amounts were owed to directors or officers of the Company.

(b) Related Parties

Foundation Group of Companies

FMI and FMI Capital Advisory Inc. ("FMICAI"), two companies where Peter Bilodeau and Adam Szweras, directors of Harborside, are the President and Chairman, respectively, had participated in the following transactions with the Company:

On February 28, 2018, FMICAI and FLRish executed a consulting agreement whereby FMICAI would provide merger and capital raising consulting services to FLRish (the "FMICAI Consulting Agreement"). Under the FMICAI Consulting Agreement, FMICAI was compensated by means of a monthly fee in the amount of C$15,000, which terminated upon completion of the RTO, and a success fee ranging from 2 to 4% of the transaction value for either an M&A transaction or an acquisition. For the three months ended March 31, 2019, Harborside paid FMICAI $33,849 (C$45,000) (2018 – $11,865 (C$15,000)) in fees related to the FMICAI Consulting Agreement. These amounts are recorded as professional fees in the Company's consolidated statements of loss and comprehensive loss.

On December 3, 2018, FMICAI and FLRish entered into an advisory agreement (the "FMICAI Advisory Agreement") whereby FMICAI would provide consulting services to the Company in addition to those contemplated under the FMICAI Consulting Agreement. In consideration of the additional services provided by FMICAI pursuant to the FMICAI Advisory Agreement, FMICAI is entitled to cash fees equal to an aggregate of $732,970 (C$1,000,000) and 143,241 advisory warrants. Each advisory warrant is exercisable into one Underlying Share at an exercise price of $4.15 (C$6.90) per share until the earlier of 60 months from December 3, 2018 or 24 months from the completion of the RTO Transaction. The Company paid $281,222 (C$370,000) and $477,309 (C$630,000) during the three months ended March 31, 2019, related to the FMICAI Advisory Agreement. These amounts are recorded as professional fees in the Company's consolidated statements of loss and comprehensive loss.

Outstanding accounts payable or accrued liabilities as of March 31, 2019 and December 31, 2018 between the Company and FMI or FMICAI was $33,674 and zero, respectively.

Legal Transactions

For the three months ended March 31, 2019 and 2018, Aird & Berlis LLP ("Aird & Berlis"), a law firm where Sherri Altshuler, Director of Harborside, is also a partner, charged the Company $157,159 and $0, respectively, for legal services, which are included in professional fees. As at March 31, 2019, an amount of $153,220 (December 31, 2018 – $nil) owing to Aird & Berlis was included in accounts payable and accrued liabilities.

(c) Other Related Parties

In December 2015, FLRish entered into an unsecured loan agreement with one of its officers (the "Yost Note"). The Yost Note bears interest at 20% annually and was due on the later of December 31, 2016, or the date on which certain convertible promissory notes of FLRish were repaid or converted in full into equity. As at December 31, 2017, the principal balance of the Yost 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, FLRish issued a convertible promissory note maturing on March 1, 2018, with a face value of $1,000,000 bearing interest at an annual rate of 12%, to Murray Fields LLC, a Delaware limited liability company owned by Roger Jenkins, a previous advisor to FLRish. The note was convertible upon FLRish raising $4,000,000 in an equity financing. Subsequent to issuance, the maturity date was extended to May 1, 2018. On April 30, 2018, FLRish raised $5,500,000 as part of the Series A Offering. Accrued interest of $78,834 was paid in cash upon conversion of the note.

(d) PMACC and SJW

PMACC, is a California company that was incorporated on August 28, 2005. PMACC's primary activity is the cultivation and dispensing of cannabis to eligible individuals pursuant to state and local law. SJW is a California corporation organized on November 17, 2009. SJW began doing business in 2012 as a compliant medical cannabis dispensary in San Jose, California under the Harborside brand. As FLRish, PMACC and SJW had some common ownership and board representation they were considered related parties.

Harborside, through its consolidated subsidiary, FLRish Retail Management & Security Services LLC, has retail management service agreements (the "Retail MSAs") with PMACC and SJW related to the management of certain Harborside dispensaries. It also is a party to a cultivation management service agreement with PMACC (the "Farm MSA") through its wholly owned subsidiary, Savature.

The Retail MSAs executed in July 2016 have a term of five years and renew automatically for two additional five-year periods, unless, on or before the dates 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 equal to 15% of dispensary gross revenues plus reimbursement of expenses incurred on behalf of the Harborside dispensaries, and are payable monthly. For the three months ended March 31, 2019, FLRish recognized contract services revenue of $83,187 when PMACC and SJW were not considered to be under common control with FLRish (March 31, 2018 - $49,226). The 2019 revenues pertain to the revenues earned prior to the merger on January 7, 2019.

The Farm MSA, executed in September 2016, 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 calls for PMACC to reimburse Savature for all expenses related to the cultivation and management services provided (the "Reimbursable Expenses"). Savature also charges an administration fee equal to 20% of the Reimbursable Expenses, which is payable monthly. The contract also provides for fees ("MSA Fees") to be paid from PMACC to Savature based upon the sales performance of products produced under the contract. The MSA Fees are based on prices which are mutually agreed upon by the PMACC and Savature.

For the three months ended March 31, 2019, FLRish had recognized revenue of $275,321 (March 31, 2018, $1,592,129) related to Reimbursable Expenses, administration fees, and MSA Fees associated with the Farm MSA. The 2019 revenues pertain to the revenues earned prior to the merger on January 7, 2019.

Harborside leased cultivation facilities, buildings, and improvements to PMACC. The lease agreement commenced on September 15, 2016, with a six-year term subject to an automatic five-year extension. The lease calls for monthly rent amounts ranging from $185,895 to $801,550 as additional rentable square foot is delivered. For the three months ended March 31, 2019, FLRish had recognized contract services revenue of $82,744 (March 31, 2018 - $1,099,319). The 2019 revenues pertain to the revenues earned prior to the merger on January 7, 2019.

For the years ended December 31, 2018, Harborside derived the entirety of its service and rental revenue from PMACC and SJW through the Retail MSAs and the Farm MSA. At December 31, 2018, the Company had an accounts receivable balance with PMACC and SJW in the amount of $22,147,570. The balance outstanding of $22,303,626 on January 7, 2019 was included as part of the total consideration paid for acquisition of PMACC and SJW by Harborside (Note 4).

On October 29, 2018, Harborside loaned $4,000,000 to PMACC by way of a promissory note bearing interest of 12%. All principal and accrued interest was 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. The balance outstanding as of $5,445,620 on January 7, 2019 was included as part of the total consideration paid for acquisition of PMACC and SJW by Harborside (Note 4).

In December 2017, the Company loaned $1,000,075 to SJW by way of a promissory note bearing zero interest.

(Expressed in United States Dollars except share amounts)

As of December 31, 2018, the note had been paid back in its entirety.
Pursuant to a transaction dated December 25, 2017, PMACC had acquired 50% of the 100,000 authorized and issued common shares of SLWS, for the purchase price of $3,000,000 to be satisfied with a promissory note in the principal amount of $3,000,000 payable to FLRish, as the seller. Due to the interest rate on the promissory note being below market rate, PMACC had discounted the note payable and investment in SLWS in the amount of $1,580,359, based on a 12% annual interest rate.

All transactions and outstanding balances with these related parties were considered to be at arm's length unless explained otherwise in the related disclosures. None of the balances are secured. No expense has been recognized in either the current year or the prior year for expected credit losses with respect to amounts owed by related parties.

(e) San Leandro Wellness Solutions (SLWS)

On January 7, 2019, as part of the acquisition of PMACC, the Company acquired a 50% ownership interest in SLWS that had a fair value of $160,000 plus advances in the amount of $1,052,807.

From January 7, 2019 to March 31, 2019, the Company advanced an additional $399,999 to SLWS.

23. Income Taxes

FLRish is treated as a U.S. corporation for U.S. federal income tax purposes under IRC Section 7874 and is subject to U.S. federal income tax. The Company's income tax expense (recovery) for the interim periods is allocated as follows:

	Three Months Ended March 31	
	2019	2018
Current tax	$ 881,034	$ 43,615
Deferred tax	(36,423)	-
Income tax expense	**$ 844,611**	**$ 43,615**

The net tax provision differs from that expected by applying the U.S. federal tax rate of 21.0% to income (loss) before income tax mainly due to limitations in the deductibility of certain expenses for tax purposes under IRS Section 280E as well as fair value adjustments for biological assets and derivative liabilities.

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of asset and liabilities for financial reporting purposes and their tax values. Of the $15.8 million net deferred tax liability as of March 31, 2019, $15.5 million relates to temporary differences associated with intangible assets recorded on the acquisition of PMACC and SJW, as discussed in Notes 4 and 11.

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movements in net deferred tax liabilities during the three months ended March 31, 2019 are due mainly to the acquisitions of PMACC and SJW as discussed in Note 4:

	Three Months Ended March 31, 2019
Balance at the beginning of the year	$ -
Net deferred tax liability from acquisitions	(15,814,865)
Recognized adjustment	36,423
Balance at the end of the period	**$ (15,778,442)**

24. Capital Risk Management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet capital expenditures required 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 shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. The Board does not establish quantitative return on capital criteria for management, but rather relies on the management team's expertise to sustain future development of the business.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions by:
(i) minimizing discretionary disbursements;

(ii) reducing operating expenditures throughout the Company; and

(iii) exploring alternate sources of liquidity.

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 material changes to the Company's capital management approach during the period ended March 31, 2019.

25. Financial Instruments and Risk Management

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

Financial instruments

The Company's financial instruments and classification of financial assets and liabilities are summarized below:

Financial Statement Caption	Classification
Cash	Amortized cost
Accounts receivable, net	Amortized cost
Accounts receivable - related party	Amortized cost
Deposits	Amortized cost
Notes receivable - related party	Amortized cost
Investments	FVTPL
Advances	Cost
Accounts payable and accrued liabilities	Amortized cost
Notes payable and accrued interest	Amortized cost
Series A Preferred Liability	FVTPL
Convertible notes payable	Amortized cost
Derivative liabilities	FVTPL

FVTPL - fair value through profit and loss

Fair value hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – inputs are unadjusted quoted prices of identical assets or liabilities in active markets;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability; either directly (i.e., as prices) or indirectly (i.e., derived from prices from observable market data); and
Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the asset or liability.

Financial instruments measured at amortized cost consist of cash, deposits, accounts receivable, accounts receivable - related party, and accounts payable and accrued liabilities wherein the carrying value approximates fair value due to its short-term nature. Other financial instruments measured at amortized cost include notes payable and convertible notes payable wherein the carrying value at the effective interest rate approximates fair value. The interest rate for notes payable and the interest rate used to discount the host debt contract for convertible notes payable approximate a market rate for similar instruments offered to the Company.

Cash, accounts receivable, accounts receivable-related party, and accounts payable and accrued liabilities are measured at Level 1 inputs. Investments and advances are initially measured using Level 1 inputs for cash advances and promissory notes. When the Company purchases additional equity interests and for certain liabilities, the fair value measurements require Level 3 inputs. The Series A Preferred Liability, Derivative Liabilities use Level 3 inputs. Series A Preferred Liability uses a Hybrid Option pricing model. Derivative Liabilities are measured at fair value at each reporting period based on a Monte Carlo Simulation option-pricing model. Refer to Note 16 and 20 for a summary of key assumptions.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, accounts receivable, accounts receivable – related parties, notes receivable – related parties and investments and advances, which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash is primarily held with reputable banks, in trust with the Company's legal counsel, and at secure facilities controlled by the Company. Management believes that the credit risk concentration with respect to financial instruments included in cash and accounts receivable is minimal.

The Company provides trade credit to its wholesale customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk is generally limited for receivables from retail customers as the majority of retail sales are transacted with cash. Credit risk for wholesale customers is assessed on a quarterly basis and an allowance for credit losses is recorded where required. Refer to Note 5 for additional expected credit loss information.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its operating and financing activities.

As at March 31, 2019, the Company had a cash balance of \$13.5 million (2018 – \$14.8 million) to settle current liabilities of \$51.2 million (2018 – \$6.9 million). The higher current liabilities as of March 31, 2019 is due to the Company's provision for an uncertain tax position. Refer to Note 17 for additional information.

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecasted and actual cash flows. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for either short- or long-term financing of its operations.

Management believes there is sufficient capital to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at period-end. Provisions are excluded from the contractual obligations table above in consideration of the Company's appeal to the Ninth Circuit court. Refer to Note 17, Provisions, for further information.

Foreign exchange risk

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company's main operations are based in the US, where the majority of transactions are in USD. The Company's primary exposure to foreign exchange risk is that transactions denominated in CAD may expose the Company to the risk of exchange rate fluctuations.

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 significant 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.

Market risk

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions.

Asset forfeiture risk

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

Banking risk

Notwithstanding that a majority of states have legalized medical cannabis, and the US Congress's passage of the SAFE Banking Act, there has been no change in US federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that US federal law provides that the production and possession of cannabis is illegal under the US Federal Controlled Substances Act, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry.

Due to the present state of the laws and regulations governing financial institutions in the US, only a small percentage of banks and credit unions offer financial services to the cannabis industry. Although the Company has strong relationships with several banking partners, regulatory restrictions currently prevent the Company from obtaining financing from US federally regulated entities. Additionally, US federal prohibitions on the sale of cannabis may result in cannabis manufacturers and retailers being restricted from accessing the US banking system and they may be unable to deposit funds in federally chartered banking institutions. While the Company does not anticipate material impacts from dealing with banking restrictions directly relating to its business, additional banking restrictions could nevertheless be imposed that would result in existing deposit accounts being closed and/or the inability to make further bank deposits. The inability to open bank accounts would make it more difficult for the Company to operate and would substantially increase operating costs and risk.

Tax risk

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

Regulatory risk

Regulatory risk pertains to the risk that the Company's business objectives are contingent, in part, upon the compliance with regulatory requirements. Due to the nature of the industry, regulatory requirements can be more stringent than other industries and may also be punitive in nature. Any delays in obtaining, or failure to obtain regulatory approvals can significantly delay operational and product development and can have a material adverse effect on the Company's business, results of operation, and financial condition.

The Company routinely monitors regulatory changes occurring in the cannabis industry at the city, state, and national levels. Although the general regulatory outlook for the cannabis industry has been moving in a positive direction, unforeseen regulatory changes could have a material adverse effect on the business as a whole.

26. Commitments and Contingencies

IRC Section 280E

Many of the central issues relating to the interpretation of IRC Section 280E remain unsettled and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E) that have never been addressed by any Treasury regulation or court case. IFRIC 23 - *Uncertainty over Income Tax Treatments* provides guidance that adds to the requirements in IAS 12, Income Taxes by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the Internal Revenue Service and the Tax Court, determined that a reserve for an uncertain tax position should be recorded. As of March 31, 2019, the reserve totaled $34.7 million (December 31, 2018 – $nil). See Note 17 for additional information.

Moothery v. Patients Mutual Assistance Collective Corp dba Harborside Health et al.

In June 2018, a former employee asserted claims against the Company alleging six (6) causes of action including:

(i) Discrimination on the basis of sex, race, and/or age;
(ii) Failure to prevent discrimination;
(iii) Retaliation for reporting harassment;
(iv) Hostile work environment harassment;
(v) Defamation; and
(vi) Wrongful termination in violation of public policy.

The claims are in the discovery phase and were initially set for trial in January 2020. The trial did not commence as scheduled and there is currently no trial date set. The next scheduled event on the Court calendar is a status update on August 24, 2020. The former employee is claiming $1,125,000 in damages. The Company believes that the facts and causes of action as alleged by the former employee are without merit, and that the Company also has meritorious defenses to the causes of action alleged by the former employee.

Accucanna, LLC

In May 2018, Harborside entered into a stock purchase agreement with Accucanna, LLC (“Accucanna”) to purchase 10% of the equity of Accucanna, originally valued at $500,000, to be issued upon completion of delivery of cannabis and cannabis related products totaling $500,000 in wholesale value. Accucanna owns a retail dispensary in the City of Desert Hot Springs (“DHS”). In April 2018, Harborside entered into a retail management service agreement with the dispensary to provide management services regarding the processing, retailing and dispensing of cannabis and cannabis related products. The initial term is for five (5) years and shall renew automatically for two additional five-year periods, unless, on or before the date of renewal, the Company or Accucanna determine, in their sole discretion, that the agreements shall not renew.

The shares are to be issued only upon delivery of products equal to $500,000. As of March 31, 2019, the Company had not yet begun to deliver products to Accucanna.

Employment Agreements

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

(Expressed in United States Dollars except share amounts)

27. General and Administrative Expenses

For the three months ended March 31, 2019 and 2018, general and administrative expenses consisted of the following:

	3 months ending	
	March 31, 2019	**March 31, 2018**
Advertising and promotion	$ 60,016	$ 1,130
Bad Debt Expense / (Recoveries)	-	186,445
Banking and processing fees	198,417	155
Other general administrative	23,234	11,820
Office and general expenses	901,477	211,671
Salaries and benefits	3,160,324	1,690,910
Taxes and Licenses	248,097	390,594
Travel and Entertainment	50,167	52,817
Total	**$ 4,641,732**	**$ 2,545,542**

28. Earnings/Loss Per Share

Basic earnings/loss per share is calculated by dividing profit or loss attributable to ordinary equity holders of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

The weighted average number of shares outstanding, basic, were:

Three months ended March 31	
2019	**2018**
19,570,057	2,377,268

Potentially dilutive shares were excluded from the calculations of diluted net loss per share for the three months ended March 31, 2018 because they are deemed to be antidilutive.

The dilutive shares for calculating dilutive earnings per share for the three months ended March 31, 2019 is 23,734,312, which includes the effect of in-the-money stock options and RSAs.

29. Segmented Information

The Company's operations comprise a single operating segment engaged in the cultivation, branding, distribution and retail management of cannabis within the US. All revenues are generated in the US and all property, plant and equipment and intangible assets are located in the US.

30. Subsequent Events

Subsequent events were evaluated through the reissuance date of this report.

Airfield Supply Company

On April 23, 2019, the Company 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. As part of the negotiations, the Company paid a $1,000,000 non-refundable deposit.

In August 2019, management determined that the Company 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. During the three months ended September 30, 2019, the Company recorded an impairment loss of $1,000,000 on a non-refundable deposit in relation to the Airfield Transaction.

FLRish Share Capital

On May 15, 2019, the Company 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 converted into shares of Harborside, as described below.

Series D Offering

On May 17, 2019, pursuant to an agency agreement among FLRish, AltaCorp Capital Inc. and FMI (together, the "Co-Lead Agents"), on behalf of a syndicate of agents (together with the Co-Lead Agents, the "Agents"), FLRish completed a brokered private placement offering (the "Brokered Concurrent Offering") of 2,508,434 subscription receipts (each, a "Subscription Receipt") at a price of CAD $7.00 per Subscription Receipt (the "Concurrent Offering Price") for gross proceeds of $13,037,586 (CAD $17,559,038). In addition, FLRish completed a concurrent non-brokered offering of 298,547 Subscription Receipts for gross proceeds of $1,551,698 (CAD $2,089,829), on the same terms as the Brokered Concurrent Offering (the "Non-Brokered Concurrent Offering", and together with the Brokered Concurrent Offering, the "Concurrent Offering"). The aggregate gross proceeds of the Concurrent Offering were approximately $14,589,284 (CAD $19,648,867).

Each Subscription Receipt automatically converted into one SR Share and one Series D Warrant 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. Each Series D Warrant issued on conversion of the Subscription Receipts entitles the holder thereof to purchase one (1) SR Share at an exercise price of C$8.75 per share until May 17, 2021, subject to adjustment in certain circumstances. On 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.

In connection with the Concurrent Offering, the Agents, which included FMI, a related party to the Company post-RTO Transaction, received an aggregate cash fee equal to 7% of the gross proceeds of the Brokered Concurrent Offering, a one-time financial advisory fee of C$105,171, and such number of broker warrants (the "SR Broker Warrants") as is equal to 7% of the number of Subscription Receipts issued pursuant to the Brokered Concurrent Offering. Each SR Broker Warrant is exercisable to purchase one SR Share and one underlying Series D Warrant at the Concurrent Offering Price until May 17, 2021, subject to satisfaction of certain escrow release conditions. On the closing of the RTO Transaction, each SR Broker Warrant immediately became exercisable for securities of Harborside on equivalent terms. Total cash commissions of $862,275 (CAD $1,161,313) were paid out to Agents.

The total share issuance costs related to the Concurrent Offering were $1,354,921, which includes the commission noted above and other professional fees.

Series D Warrants

On May 17, 2019, the Company issued 2,806,981 Series D Warrants in connection with the Brokered Concurrent Offering. Each Series D Warrant entitles the holder thereof to purchase one (1) SR Share at an exercise price of C$8.75 per share until May 17, 2021. The Series D Warrants are being accounted for as a derivative liability.

The Company also issued 160,775 Broker Warrants to Agents as compensation to the Brokered Concurrent Offering. Each Broker Warrant is exercisable to purchase one (1) SR Share and one (1) Series D Warrant at the Concurrent Offering Price of C$7.00 until May 17, 2021.

RTO Transaction

On May 30, 2019, Lineage and FLRish formed Harborside through the RTO Transaction, resulting in the former shareholders of FLRish holding a majority of the outstanding share capital and assuming control of Lineage. The RTO Transaction was a reverse acquisition and has been accounted for as a capital transaction, with FLRish being identified as the accounting acquirer. Harborside's financial statements are presented as a continuation of the financial statements of FLRish reflecting the acquisition of Lineage using the acquisition method of accounting.

Concurrent with the closing of the RTO Transaction, Lineage consolidated its common shares on the basis of approximately 41.82 common shares into one new common share, which were then reclassified as subordinate voting shares ("SVS"). A new class of multiple voting shares (the "MVS") of the resulting issuer was also created. 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. (as disclosed in Note 1). On June 10, 2019, the SVS began trading on the Canadian Securities Exchange. Harborside's SVS are listed on the CSE under the trading symbol "HBOR".

As Lineage owned and operated two dispensaries in Oregon it met the definition of a business under IFRS 3.

The $14,565,768 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:

(i) 2,887,781 SVS, having an estimated fair value of $11,016,549 based on the fair value of shares issued in connection with closing of the RTO Transaction, inclusive of 1,070,670 SVS issued on conversion of the series A special shares of Lineage, and 1,817,340 SVS issued in exchange for the Lineage Common Shares (as defined below).
(ii) 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 (C$5.15) per share based on the Concurrent Offering, consolidation-adjusted exercise price of $3.10 to $7.74 (C$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 0.25 to 4.55 years. In making the assumptions for expected volatility, the Company used the estimated average volatility of comparable companies in the cannabis industry.
(iii) 308,662 warrants to acquire SVS, having an estimated fair value of $94,186 determined based on a Black Scholes option pricing model which incorporated the following assumptions: implied share price – $3.81 (C$5.15) per share, consolidation-adjusted exercise price of $7.74 to $10.07 (C$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, the Company used the estimated average volatility of comparable companies in the cannabis industry.
(iv) The effective settlement of a pre-existing relationship related to the bridge loan payable to the Company by Lineage of $1,576,342.
(v) The contingent consideration in the amount of $1,750,386, subsequently classified by Harborside under Shareholders' Equity, is related to the 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 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"). Pursuant to the merger agreement between Harborside, Inc., FLRish,

Inc., and Lineage Merger Sub, Inc., entered into on February 8, 2019 and as amended on April 17, 2019 (the "Merger Agreement"), 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. (the "LUX Acquisition"), d/b/a LUX Cannabis Dispensary ("LUX"). Similarly, the Series C Special Shares would be converted into one Lineage Common Share upon the completion of the acquisition of Walnut Oaks, LLC (the "Agris Acquisition"), d/b/a Agris Farms ("Agris Farms"). 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, 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 being 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, the Company 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.

The estimated fair value of acquired intangible assets includes a trademark of $113,899 and cannabis licenses to two operating Terpene Station Dispensaries of $239,970. The estimated fair value of the intangible assets acquired utilized the projected revenues on an aggregate basis for the Terpene Station Dispensaries over the term of the useful life.

Series A-1 and Series A-2 Preferred Stock of FLRish

As part of the RTO Transaction, the issued and outstanding Series A-1 Preferred Shares and Series A-2 Preferred Shares were converted, pursuant to their terms, into Series B Common Shares, which were each ultimately converted into 1/100 of a MVS. Immediately prior to the RTO Transaction, the Series A-1 Preferred Shares and Series A-2 Preferred Shares were revalued at $23,804,852, based on a per share value was C$ 5.15 ($3.81).

Series A Common Stock

As part of the RTO Transaction, each of the issued and outstanding shares of Series A Common Stock was exchanged for 1/100 of an MVS.

Series B Common Stock

As of May 30, 2019, an aggregate of 399,153 Series B Common Shares were issued to holders of debentures in satisfaction of the payment of accrued interest as part of the RTO Transaction. 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.

As part of the RTO Transaction, the issued and outstanding Series B Common Shares were exchanged for 1/100 of an

MVS per Series B Common Share.

Series D Common Stock

As part of the RTO Transaction, the issued and outstanding Series D Common Stock was exchanged for one (1) SVS per share of Series D Common Stock.

Going public stock success fee

On May 30, 2019, Harborside paid a going public stock success fee of $2,166,967 (C$2,925,622) to FMICAI, a related party to Harborside post-RTO Transaction, which was satisfied by the issuance of 417,946 shares of Series D Common Stock of Harborside immediately prior to the completion of the RTO Transaction. The aforementioned shares of Series D Common Stock were exchanged for 417,946 SVS of Harborside upon completion of the RTO Transaction.

On May 30, 2019, Harborside paid M&A advisory fees to FMICAI by the issuance of 22,237 SVS. The SVS were valued at $85,512, based on Harborside's Brokered and Non-Brokered Concurrent Offering price.

Related party transactions

In May 2019, Quinsam subscribed for 30,000 Subscription Receipts for $155,925 (CAD $210,000) as part of the Concurrent Offering. Quinsam received 378,233 SVS through conversion of units subscribed from the 2018 Private Placements and the Concurrent Offering, and 56,485 SVS through its prior subscription of Lineage securities, in connection with the RTO Transaction.

In May 2019, Entourage Effect Capital LLC (formerly Cresco Capital Partners II LLC), an entity in which Matthew Hawkins, a director of Harborside, is the managing partner, subscribed for 288,000 Subscription Receipts for $1,496,880 (C$2,016,000) under the Concurrent Offering.

On August 28, 2019, FMICAI entered into a new advisory agreement with Harborside for CAD $8,000 a month, which applies retroactively to July 1, 2019.

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 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 Harborside's Interim CEO.

Options and warrants

In July 2019, Peter Bilodeau, the Chairman of the Board, exercised options to purchase 5,797 SVS for a total exercise price of C$40,000 (with such amount having been issued to him as a bonus payable by Harborside upon the closing of the RTO Transaction in accordance with a letter agreement dated December 11, 2018).

In August, 2019, additional options to purchase 15,000 SVS for a total aggregate exercise price of $7,250, were exercised by various option holders of Harborside.

Subsequent to March 31, 2019, 90,391 options which were previously issued to former warrant holders of Lineage as part of the RTO Transaction expired unexercised.

Subsequent to December 31, 2019, 308,662 warrants which were previously issued to former warrant holders of Lineage as part of the RTO Transaction expired unexercised.

Term Loan

On July 26, 2019, the CFP Loan with principal balance of $1,780,000 was repaid in full.

Agris Acquisition

On August 29, 2019, management determined that Harborside would not proceed with the Agris Acquisition, having assessed that the transaction is not in furtherance of Harborside's goals or strategy. During the three months ended September 30, 2019, Harborside recorded an impairment loss of $238,128 on the investment of Agris Farms and an allowance of ECL of $338,332 on advances paid on assumption of certain liabilities.

Acquisition of SLWS

On October 8, 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 did not meet the definition of a business under IFRS 3, the acquisition was accounted for as an asset acquisition and the total consideration paid was allocated to the assets acquired and no residual goodwill was recognized.

The project was under construction until December 31, 2019.

Separation Agreement

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.

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.

Dispensaries

On December 7, 2019, Harborside began operating a dispensary in Desert Hot Springs, California under a management services agreement.

On February 11, 2020, Harborside officially 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 and a decision to focus on its highest return-on-investment assets, specifically those with potential for revenue growth and profitability within the next 12 months.

Gia Calhoun v. FLRish, Inc.

On January 6, 2020, Harborside's subsidiary FLRish, Inc. 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 (the "Court"), alleges violations of the Telephone Consumer Protection Act (47 USC §227 et seq.) ("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 Company'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 it 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" in the Duguid v. Facebook petition. On July 6, 2020, the US 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 Court's order the parties filed a joint status report on July 13, 2020 and on July 17, 2020 the parties appeared before the Court for a case management conference. At the case management conference, the Court ruled that (i) no class related discovery is permitted, (ii) within the next 90 days, Harborside may take discovery on plaintiff's TCPA claim, (iii) within the next 90 days, plaintiff may take discovery from Harborside or its outside service provider as to the issue of whether an "automatic telephone dialing system" ("ATDS") was used to call plaintiff. The Court also expressly ruled that the parties may not engage in any expert discovery on the ATDS issue and set another case management conference for October 16, 2020. In the interim, Harborside anticipates that the US Supreme Court will grant review on the issue of what constitutes an ATDS in the Duguid v. Facebook petition, and Harborside plans to subsequently propose that the Court extend the stay until the US Supreme Court issues a decision on Facebook's petition.

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. Harborside 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.

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 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.

Cease Trade Order

On June 8, 2020, the Ontario Securities Commission (the "OSC") issued a cease trade order (the "CTO") which prevents trading in the 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 Harborside will make the application, there is no assurance that the OSC will grant the revocation order.