Patients Mutual Assistance Collective Corporation

Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(Expressed in United States Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
of Patients Mutual Assistance Collective Corporation and Subsidiary

Opinion

We have audited the consolidated financial statements of Patients Mutual Assistance Collective Corporation, which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the related consolidated statements of operations, statements of changes in equity (deficit), and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Patients Mutual Assistance Collective Corporation as of December 31, 2018 and 2017, and its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of Patients Mutual Assistance Collective Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing Patients Mutual Assistance Collective Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Patients Mutual Assistance Collective Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Patients Mutual Assistance Collective Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also—

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Patients Mutual Assistance Collective Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Patients Mutual Assistance Collective Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Patients Mutual Assistance Collective Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

James S. Lovejoy, CPA, CGMA

James S. Lovejoy, CPA, PC
Kittredge, Colorado
May 29, 2019

Patients Mutual Assistance Collective Corporation
Consolidated Statements of Financial Position
As at December 31, 2018 and 2017

Assets

	2018	2017
Current assets		
Cash	$ 2,237,347	$ 925,944
Accounts receivable (Note 5)	643,303	235,831
Inventory (Note 6)	3,692,851	8,269,711
Biological assets (Note 10)	3,682,832	1,988,388
Prepaid expenses	1,588,172	542,945
Total current assets	11,844,505	11,962,819
Non-current assets		
Property, plant and equipment (Note 8)	1,165,436	1,242,286
Deposits (Note 7)	13,123	13,123
Investments (Note 4)	1,891,992	916,420
Total non-current assets	3,070,551	2,171,829
Total assets	$ 14,915,056	$ 14,134,648

See accompanying notes to the consolidated financial statements.

Patients Mutual Assistance Collective Corporation
Consolidated Statements of Financial Position
As at December 31, 2018 and 2017

Liabilities and Equity

	2018	2017
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	$ 7,727,988	$ 10,092,503
Due to related parties (Note 18)	22,147,570	9,641,425
Income taxes payable (Note 11)	49,311	381,836
Notes payable - short term (Note 12)	0	5,689
Total current liabilities	29,924,869	20,121,453
Long-term liabilities		
Notes payable - related party, net (Note 12)	4,838,661	1,893,772
Total long-term liabilities	4,838,661	1,893,772
Total liabilities	34,763,530	22,015,225
Shareholders' Equity (Deficit) (Note 13)		
Share capital	10,000	10,000
Contributed surplus	47,500	47,500
Deficit attributable to shareholders of the Company	(19,905,974)	(7,938,077)
Total equity (deficit)	(19,848,474)	(7,880,577)
Total liabilities and equity (deficit)	$ 14,915,056	$ 14,134,648

Approved and authorized on behalf of the Board of Directors on May 29, 2019:

____________________ Treasurer

See accompanying notes to the consolidated financial statements.

Patients Mutual Assistance Collective Corporation
Consolidated Statements of Operations

		For the 12 Months Ended December 31, 2018		For the 12 Months Ended December 31, 2017
Revenues and gains				
Sales revenue, net of discounts	$	43,184,490	$	45,316,159
Costs of goods sold		42,665,021		40,115,063
Gross profit before unrealized gain from changes in biological assets		519,469		5,201,096
Unrealized gain from changes in fair value of biological assets (Note 10)		1,694,444		1,451,049
Gross profit		2,213,913		6,652,145
Operating expenses				
General and administrative (Note 17)		12,901,682		13,562,772
Depreciation expense (Note 8)		274,225		210,230
Professional fees		827,021		320,737
Total operating expenses		14,002,928		14,093,739
Loss from operations		(11,789,015)		(7,441,594)
Other income and expenses				
Income tax refund		73,652		(1,600)
Interest expense		(331,007)		(7,655)
Interest income		846		557
Other Income		77,627		125,254
Royalty income		0		767
Total other income (expense)		(178,882)		117,323
Net income (loss)	$	(11,967,897)	$	(7,324,271)

See accompanying notes to the consolidated financial statements.

Patients Mutual Assistance Collective Corporation

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

For the Years Ended December 31, 2018 and 2017

	Share capital	Contributed surplus	Accumulated income/(losses)	Non-Controlling Interest	Total
Balance, December 31, 2016	$ 10,000	$ 47,500	$ (613,806)	$ 0	$ (556,306)
Net (loss)	0	0	(7,324,271)	0	(7,324,271)
Balance, December 31, 2017	$ 10,000	$ 47,500	$ (7,938,077)	$ 0	$ (7,880,577)
Balance, January 1, 2018	$ 10,000	$ 47,500	$ (7,938,077)	$ 0	$ (7,880,577)
Net (loss)	0	0	(11,967,897)	0	(11,967,897)
Balance, December 31, 2018	$ 10,000	$ 47,500	$ (19,905,974)	$ 0	$ (19,848,474)

See accompanying notes to the consolidated financial statements.

Patients Mutual Assistance Collective Corporation
Consolidated Statements of Cash Flows

	For the 12 Months Ended December 31, 2018	For the 12 Months Ended December 31, 2017
Operating activities		
Net loss	$ (11,967,897)	$ (7,324,271)
Item not affecting cash:		
Amortization and depreciation	274,225	210,230
Amortization of Discount for Below Market Interest Notes Payable	270,732	4,512
Income tax expense	0	1,600
Interest income	(846)	(557)
Interest expense	60,275	3,143
Unrealized gain from changes in fair value of biological assets	(1,694,444)	(1,451,049)
	(13,057,955)	(8,556,392)
Changes in non-cash working capital:		
Accounts receivable	(407,472)	(123,661)
Accounts receivable - related parties	0	641,074
Inventory	4,576,860	(5,355,950)
Prepaid expenses	(1,045,225)	(225,135)
Restricted cash deposits	0	193,265
Accounts payable and accrued liabilities	(2,370,205)	5,788,509
Due to related parties	12,506,145	7,865,228
Income taxes payable	(332,525)	(263,705)
	12,927,578	8,519,625
Net cash provided by (used in) Operating activities	(130,377)	(36,767)
Investing activities		
Capital expenditures	(197,375)	(352,234)
Investments held to maturity	(975,572)	(894,737)
Net cash provided by (used in) Investing activities	(1,172,947)	(1,246,971)
Financing activities		
Notes payable borrowings - FLRish, Inc. (Note 12)	4,208,730	803,564
Notes payable repayments - FLRish, Inc. (Note 12)	(1,534,574)	(5,295)
Interest received	846	557
Interest paid	(60,275)	(7,655)
Net cash provided by (used in) Financing activities	2,614,727	791,171
Net increase (decrease) in Cash and cash equivalents	1,311,403	(492,567)
Beginning cash and cash equivalents	925,944	1,418,511
Ending cash and cash equivalents	$ 2,237,347	$ 925,944
Supplementary information:		
Interest paid	$ 2,875	$ 3,143
Income taxes paid	$ 326,439	$ 302,028

See accompanying notes to the consolidated financial statements.

Patients Mutual Assistance Collective Corporation
Notes to Financial Statements

1. Nature of Operations

Patients Mutual Assistance Collective Corporation ("Company"), a California corporation, was incorporated on August 28, 2005 under the California Corporations Code in the United State of America. The Company commenced operations on September 7, 2005. The Company's primary activity is the cultivation and dispensing of cannabis to eligible individuals in Oakland and San Jose, California, pursuant to state and local law.

The primary objective of the Company is to provide extraordinary service by offering cannabis through a safe and affordable alternative to illegal markets. The Company serves individuals suffering from a wide variety of medical issues as well as all adults over the age of twenty-one and advocates for the needs of its patients, customers, and the community. The Company strives to promote the benefits of cannabis through social and political awareness. The Company is supported primarily through the sale of cannabis and related products.

The address of the Company's principal place of business is 1840 Embarcadero Oakland, CA 94606. The Company's registered and records office address is located at 2100 Embarcadero, Suite 205, Oakland, California 94606.

2. Basis of Preparation

a. Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issue by the board of directors on May 29, 2019.

b. Basis of Presentation

The consolidated financial statements have been prepared on the historical cost basis except for biological assets measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

c. Functional Currency

These consolidated financial statements are presented in United States dollars. The functional currency of the Company is the United States dollar.

2. Basis of Preparation (Continued)

d. Basis of Consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Subsidiaries	Jurisdiction of Company	Effective Ownership
San Jose Wellness Solutions Corp.	California	100%

All significant intercompany balances and transactions have been eliminated in consolidation. The Company and San Jose Wellness Solutions Corp. ("SJW"), a California nonprofit mutual benefit corporation organized on November 17, 2009 under the California Nonprofit Mutual Benefit Corporation Law, are under common control and have been since inception. As such, no goodwill has been recognized in these financial statements for the consolidation of SJW. The principal place of business of SJW is 1365 North 10^{th} Street, San Jose, California. All subsidiaries use December 31^{st} as the end date of their reporting period.

3. Significant Accounting Policies

a. Trade and Other Receivables

Accounts and notes receivable are recorded at net realizable value. The Company provides for probable losses on accounts and notes receivable using the allowance method. The allowance is determined based on management's experience and collection efforts. Balances that remain outstanding after the Company has used reasonable collection efforts are written off. The Company has recorded no allowance as receivables are historically 100% collectible. At December 31, 2018 and 2017, $643,303 and $235,831 in receivables were due from non-related parties, respectively.

b. Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method.

3. Significant Accounting Policies (Continued)

b. Inventory (Continued)

Inventories of harvested cannabis are transferred from biological assets into inventory 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 inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. Packaging and supplies are initially valued at cost. All direct and indirect costs related to inventory are capitalized as they are incurred, and expensed when the related item is sold.

c. Biological Assets

The Company's biological assets consist of cannabis plants. These biological assets are measured at fair value less costs to sell and costs to complete. At the point of harvest, the biological assets are transferred to its customers' inventory at fair value less costs to sell and costs to complete. 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. They include the direct cost of 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 overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and they are all subsequently recorded within the line item 'cost of goods sold' on the statement of operations in the period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line on the face of the statement of operations. Biological assets are measured at their fair value less costs to sell on the balance sheet.

Determination of the fair values of the biological assets and the agricultural produce requires the Company 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 the 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 inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory.

3. Significant Accounting Policies (Continued)

c. Biological Assets (Continued)

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 the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

d. Leases

Leases that do not transfer to the Company substantially all the benefits and risks incident to ownership of the asset are accounted for as operating leases. These operating leased assets are not recognized in the Company's statement of financial position. Operating lease payments are recognized in the statement of operations on a straight-line basis over the lease term.

e. Property, Plant and Equipment

Property and equipment acquisitions greater than $500 are measured at cost less accumulated depreciation and impairment losses. Depreciation commences when the assets are available for use and is charged to the income statement on a straight-line basis over its useful life as outlined below:

Furniture and fixtures – 7 years
Leasehold Improvements – Remaining life of lease
Office equipment – 5 years
Software – 3 years
Vehicles – 5 years

An asset's residual value, useful life and amortization method are reviewed at each financial year-end and adjusted if appropriate.
When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

3. Significant Accounting Policies (Continued)

f. Revenue Recognition

The Company adopted the IASB's new revenue recognition standard IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") on January 1, 2018. The new standard replaces IAS 18 - Revenue, and provides for a single model that applies to all sales to customers with two types of recognition: at a point in time or over time. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of adoption. Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied, which are generally met once the products are provided to customers:

- The Company has transferred the significant risks and rewards of ownership of the goods to the purchaser;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

g. Income Taxes

Income tax on the consolidated statements of loss for the periods presented comprises current and deferred tax. Income tax is recognized in the consolidated statements of loss and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

3. Significant Accounting Policies (Continued)

h. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity.

Initial Measurement of Financial Assets and Financial Liabilities

Financial assets and liabilities are recognized at historical costs.

Subsequent Measurement

Measurement in subsequent periods is dependent on the classification of the financial instrument. The Company classifies its financial instruments in the following categories: other financial assets and other financial liabilities.

Classification of Financial Instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Financial Assets:	IAS 39 Classification	IFRS 9 Classification
Cash	Loans and receivables	Amortized cost
Accounts Receivable	Loans and receivables	Amortized cost
Notes Receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost

Financial Liabilities:	IAS 39 Classification	IFRS 9 Classification
Accounts Payable and Accrued Liabilities	Other financial liabilities	Amortized cost
Notes Payable	Other financial liabilities	Amortized cost

Impairment of financial assets

Financial assets, other than those classified at fair value through profit or loss, are assessed for indicators of impairment at the end of the year. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

3. Significant Accounting Policies (Continued)

i. Impairment of Non-Financial Assets

Non-financial assets include goodwill. Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. If indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the asset's fair value less costs of disposal and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss. An impairment loss, other than goodwill impairment, is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been previously recognized.

j. Critical Accounting Estimates and Judgments

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

<u>Estimated Useful Lives and Depreciation of Property and Equipment</u>

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

3. Significant Accounting Policies (Continued)

j. Critical Accounting Estimates and Judgments (Continued)

Income Taxes and Recoverability of Deferred Tax Assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction.

The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Biological Assets and Inventory

Biological assets, consisting of cannabis plants and agricultural produce consisting of cannabis, are measured at fair value less costs to sell up to the point of harvest.

Determination of the fair values of the biological assets and the agricultural produce requires the Company 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 the 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 inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory. 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 the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

3. Significant Accounting Policies (Continued)

j. Critical Accounting Estimates and Judgments (Continued)

Allowance for Doubtful Accounts

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

k. Sales Tax

The Company excludes from revenue all sales taxes collected from customers. Sales taxes collected on taxable sales are recorded as current liabilities in the statement of financial position until remitted to the respective taxing authorities.

l. Employee Retirement Contribution Plan

The Company has established a 401(k) retirement plan ("the Plan") for eligible employees who have completed one year of employment. The Plan allows for discretionary tax-deferred contributions by employees and matching employer contributions up to 4% of employee compensation. For the years ended December 31, 2018 and 2017, the Company's retirement contribution expense was $51,072 and $41,184, respectively.

m. New Standards and Interpretations Effective January 1, 2018

The Company has applied the following new and revised IFRSs that have been issued and are effective:

IFRS 7 – Financial Instruments:

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

IFRS 9 – Financial Instruments

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39.

3. Significant Accounting Policies (Continued)

n. New Standards and Interpretations Effective January 1, 2018 (Continued)

IFRS 9 – Financial Instruments (Continued)

The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities are measured at amortized cost unless the fair value option is applied. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with earlier application permitted. The Company has adopted IFRS 9 and does not expect the new standard to have a material impact on its consolidated financial statements from the adoption of this new standard.

IFRS 15 – Revenue from Contracts with Customers

The IASB replaced IAS 18, *Revenue*, in its entirety with IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company adopted IFRS 15 using the modified retrospective approach where the cumulative impact of adoption was recognized in retained earnings as of January 1, 2018, and comparatives will not be restated.

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

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

Revenue from retail sales are recognized at the time of sale, at which time payment is due and performance obligations are met. The timing of revenue recognition is consistent with the Company’s previous revenue recognition policy under IAS 18. Based on the Company’s assessment, the adoption of this new standard had no impact on the amounts recognized in its consolidated financial statements.

3. Significant Accounting Policies (Continued)

o. Recent Accounting Pronouncements - Not Yet Adopted

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. The Company has not applied IFRS 16 and is assessing the potential impact of IFRS 16 on its consolidated financial statements.

4. Investments

On December 25, 2017, the Company completed the acquisition of 50% of the 100,000 authorized and issued common shares of San Leandro Wellness Solutions, Inc. ("SLWS"), for the purchase price of $3,055,000 to be satisfied with a promissory note in the principal amount of $3,055,000 (Note 13) payable to the seller FLRish, Inc. ("FLRish"), a related party (Note 18). Due to the interest rate on the note to FLRish being below market, the Company has discounted the note payable and investment in SLWS in the amount of $2,165,814 based on a 12% annual interest rate. Prior to completing the purchase, the Company had advanced $82,234 to SLWS. The net investment in SLWS was $1,891,992 and $916,420 at December 31, 2018 and 2017, respectively.

5. Trade and Other Receivables

Bad debt expense amounts for the years ended December 31, 2018 and 2017 are $0 and $0, respectively. All of the Company's trade and other receivables have been reviewed for indicators of impairment. No impairment was identified. Accounts receivable more than 90 days past due totaled $0 and $0 at December 31, 2018 and 2017, respectively.

6. Inventory

Inventory consisted of cannabis products comprised of the following at December 31st:

	2018	2017
Products for resale	$ 1,261,162	$ 5,879,656
Finished goods	2,431,689	2,390,055
	$ 3,692,851	$ 8,269,711

7. Deposits

The Company records deposits used to secure future services from suppliers as a long-term asset. At December 31, 2018 and 2017, the Company held security deposits for property leased in the amounts of $13,123 and $13,123, respectively.

8. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31st:

	December 31, 2016	Additions	Disposals	Depreciation	December 31, 2017
Computer Equipment	$ 19,969	$ 191,589	$ 0	$ 35,540	$ 176,018
Leasehold Improvements	921,783	88,668	0	113,774	896,677
Office Equipment	107,076	35,222	0	25,242	117,056
Vehicles	13,246	36,755	0	8,704	41,297
Software	38,208	0	0	26,970	11,238
	$ 1,100,282	$ 352,234	$ 0	$ 210,230	$ 1,242,286

	December 31, 2017	Additions	Disposals	Depreciation	December 31, 2018
Computer Equipment	$ 176,018	$ 57,475	$ 0	$ 91,616	$ 141,877
Leasehold Improvements	896,677	91,673	0	124,086	864,264
Office Equipment	117,056	40,727	0	35,518	122,265
Vehicles	41,297	0	0	11,767	29,530
Software	11,238	0	0	11,238	0
Construction in Progress	0	7,500	0	0	7,500
	$ 1,242,286	$ 197,375	$ 0	$ 274,225	$ 1,165,436

Assets under construction in progress ("CIP") relate to architectural drawings for a leasehold buildout not yet completed or otherwise not ready for use. Depreciation begins for property and equipment in CIP when the items are placed in service. Depreciation and amortization expense for the years ended December 31, 2018 and 2017, totaled $274,225 and $210,230, respectively.

At December 31, 2018, the Company had fully depreciated property, plant and equipment with a gross carrying amount of $936,648 still in use.

9. Accounts Payable and Accrued Liabilities

	2018	2017
Accounts payable	$ 3,490,118	$ 6,129,263
Accrued expenses	66,151	20,862
Accrued payroll	510,608	1,039,447
Sales and use tax payable	3,661,111	2,902,931
	$ 7,727,988	$ 10,092,503

10. Biological Assets

Biological assets consist of immature cannabis plants. Once harvested, biological assets are transferred to inventory. The Company's biological assets are consumable in nature. The Company values biological assets at three stages prior to harvest. The three stages are as follows:

- Cloning – the stage at which the plant is developing roots;
- Vegetative – the stage after the plant has developed roots and is on a 24 hour grow cycle; and
- Flowering – the stage at which the plant has achieved sufficient size to produce cannabis flowers.

The carrying values of biological assets for the years ended December 31, 2018 and 2017 are as follows:

Stage (Value)	Count at 12/31/17	Total Value at 12/31/17
Cloning ($6 each)	39,843	$ 239,058
Vegetative ($25 each)	30,829	770,725
Flowering ($85 each)	11,513	978,605
	82,185	$ 1,988,388

Stage (Value)	Count at 12/31/18	Total Value at 12/31/18
Cloning ($6 each)	6,812	$ 40,872
Vegetative ($25 each)	32,047	801,175
Flowering ($85 each)	33,421	2,840,785
	72,280	$ 3,682,832

Realized and unrealized gains and losses arising from changes in the carrying amount of biological assets for the years ended December 31, 2018 and 2017 are as follows:

	Twelve Months Ended December 31,	
	2018	**2017**
Sales Revenue, Net of Discounts	$ 43,184,490	$ 45,316,159
Cost of Goods Sold	42,623,387	38,802,093
Gross Profit before Biological Assets Adjustment	**561,103**	**6,514,066**
Realized Fair Value Amounts Included in Inventory Sold	(41,634)	(1,312,970)
Unrealized Fair Value Gain (Loss) on Growth of Biological Assets	1,694,444	1,451,049
Gross Profit	**$ 2,213,913**	**$ 6,652,145**

10. Biological Assets (Continued)

The significant assumptions used in determining the fair value of cannabis plants includes:

- Wastage of plants based on their various stages;
- The costs incurred and costs at different stages in the growing cycle of the plants were estimated by calculating an average of total growing costs over the total production period;
- Expected yields for cannabis on plants to be harvested, by strain of plant; and
- The percentage of costs incurred as a percent of total cost was applied to the total fair value per gram, which is determined based on market prices of cannabis.

11. Income Tax Payable

	2018	2017
Income taxes - accumulated	$ 49,311	$ 381,836
	$ 49,311	$ 381,836

12. Notes Payable

The Company had a note payable that financed a vehicle purchase which was paid off in its entirety during 2018. The note bears interest at a rate of 1% and is payable in 60 monthly installments of $438. The note is secured by the vehicle being financed. At December 31, 2018 and 2017, the outstanding principal balances on this note were $0 and $5,689, respectively.

The Company has a note payable owed to FLRish, a related party (Note 18), used to purchase SLWS (Note 4). The note has a principal amount of $3,055,000 and bears interest at a rate of 2%. All principal and accrued interest is payable in a balloon payment due December 25, 2025. Due to the interest rate being below market, the Company has recorded a discount in the amount of $2,165,814 on the note payable based on an annual rate of 12%. The discount is amortized at a monthly rate of $22,561. At December 31, 2017, the note had a net discount of $2,161,302 and outstanding principle amount of $3,055,000. At December 31, 2018, the note had net discount of $1,890,570 and outstanding principle balance of $2,729,231.

The Company engaged FLRish, a related party (Note 18), to assist it in complying with City of San Jose requirements for vertical integration by securing and building out a production facility. FLRish was able to locate a property and began improving it to meet the needs of the Company. The project was discontinued in 2016 as the Company deemed the project it to be economically infeasible. Prior to discontinuing the project, FLRish incurred $1,090,208 of costs related to the project. A promissory note was issued for the costs incurred which the Company has recorded as a long-term note payable. The note does not have any formal terms. At December 31, 2018 and 2017, the note had outstanding principle balances of $0 and $1,055,075, respectively.

On November 7, 2018, the Company issued a note payable to FLRish, a related party (Note 18), for a principle amount of $4,000,000, bearing an interest rate of 12%. All principal and accrued interest is payable in a balloon payment due November 7, 2019. At December 31, 2018, the note had an outstanding principle balance of $4,000,000 and accrued interest of $57,400.

13. Share Capital

Upon incorporation, the Company was authorized to issue 500,000 shares of a single class of stock ("Common Stock") with a par value of $0.02 per share. All Common Stock has been issued and fully paid. There were no changes to Common Stock during the years ended December 31, 2018 and 2017.

14. Income Taxes

The Company and subsidiary are taxed as a C-corporations for federal and California income tax purposes. The Company and subsidiary do not file consolidated income tax returns. The Company and subsidiary file income tax returns in the U.S. Federal and California jurisdictions. Currently, the 2015 through 2018 income tax returns are open for examination and years 2007 through 2012 are under examination (Note 20). All required income tax filings are current.

Dividends paid to stockholders are taxable for U.S. federal and State of California income tax. The Company has neither proposed nor declared any dividends.

As of December 31, 2018 and 2017, PMACC had federal and California net operating loss carry forwards of approximately $15,500,000 and $4,500,000, respectively. As of December 31, 2018 and 2017, SJW had federal and state net operating loss carry forwards of approximately $500,000 and $1,500,000, respectively. The net operating loss carry forwards will begin to expire in the year ending December 31, 2035 if not utilized. The statute of limitations on tax returns for the Internal Revenue Service and California Franchise Tax Board are 3 and 4 years respectfully. Net operating losses remain open for examination beyond these statute of limitations for both the Internal Revenue Service and California Franchise Tax Board

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Due to the uncertainty relating to 280E, the Company has determined that any deferred taxes cannot be reasonably determined. Accordingly, no provision for deferred tax has been recorded in the accompanying financial statements. Currently petitions for redetermination for the 2007 through 2012 tax years are pending before the U.S. Tax Court based on the Commissioner's imposition of 280E to the returns (Note 20).

The Company is required to evaluate each of its tax positions to determine if they are more likely than not to be sustained under examination. Due to the nature of the Company's primary activity, the IRS is attempting to impose Internal Revenue Code Section 280E ("280E"). The imposition of 280E would disallow all tax deductions for general and administrative expenses. The Company has evaluated the potential financial statement effects arising from the imposition of 280E and determined it cannot be reasonably estimated. Accordingly, no provision for the effect of uncertain tax positions has been recorded in the accompanying financial statements.

15. Costs of Goods Sold

The Company recognizes expenses that relate directly and indirectly to the production of inventory as costs of goods sold on the consolidated statements of net loss.

16. Capital Management

The Company considers its capital structure to include contributed capital, accumulated deficit, non-controlling interests and any other component of shareholders' equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new units, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach during the years ended December 31, 2018 and 2017.

17. General and Administrative Expenses

The Company recognizes expenses that pertain to operations as general and administrative expenses on the consolidated statements of net loss. General and administrative expenses consist of the following at December 31st:

	2018	2017
Advertising and marketing	$ 582,464	$ 471,992
Bank service charges	994,555	101,536
Charitable contributions	23,201	71,109
Corporate development	27,769	42,048
Dues and subscriptions	18,893	33,979
Employee retirement benefits (Note 3m)	51,072	41,184
Employee health benefits	463,750	470,772
Facilities expense	1,836,475	2,286,790
General management	6,363,465	6,964,603
Human resources	42,019	40,271
Insurance expense	697,369	810,232
Penalties	57,962	91,650
Settlements	7,500	0
Taxes and licenses	1,255,294	1,850,304
Technology expense	476,369	285,226
Travel expense	3,525	1,076
	$ 12,901,682	$ 13,562,772

18. Related Party Transactions

The Company considers the shareholders, members of management, and members of their immediate families, and entities under common control to be related parties to the Company. Transactions with related parties are entered into in the normal course of business and are measured at the amount established and agreed to by the parties.

Notes Payable – Related Party

On December 25, 2017, the Company purchased 50% of the authorized and issued common shares of SLWS from FLRish. The purchase price of the common shares of SLWS was $3,055,000. The purchase was satisfied in full by a note payable to FLRish (Note 12).

All principal and accrued interest totaling $3,584,598 are payable in a balloon payment due December 25, 2025. At December 31, 2017, the note had a net discount of $2,161,302 and outstanding principle amount of $3,055,000. At December 31, 2018, the note had net discount of $1,890,570 and outstanding principle balance of $2,729,231.

The Company has a note payable due to FLRish for costs incurred to assist it in developing a cultivation facility (Note 12). At December 31, 2018 and 2017, the not had outstanding principal balances of $0 and $1,000,075, respectively.

On November 7, 2018, the Company issued a note payable to FLRish for a principle amount of $4,000,000, bearing an interest rate of 12% (Note 12). All principal and accrued interest is payable in a balloon payment due November 7, 2019. At December 31, 2018, the note had an outstanding principle balance of $4,000,000 and accrued interest of $57,400.

Contract Services Agreements – Related Party

In September 2016, the Company entered into a service contract with Savature, Inc. (“Savature”), a wholly owned subsidiary of FLRish. The Company and Savature share key management personnel. Savature provides cultivation and management services to the Company (Note 20). The contract 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 contract calls for the Company to reimburse Savature for all expenses related to the services rendered, plus a 20% administration fee. For the years ended December 31, 2018 and 2017, Savature billed the Company $11,177,813 and $7,880,698, respectively, for contract services rendered. At December 31, 2018 and 2017, the Company had amounts due to Savature of $17,605,872 and $538,259, respectively.

In July 2016, the Company entered into a service contract with a related party, FLRish Retail Management & Security Services, LLC (“RMCO”). RMCO and the Company share key management personnel. RMCO provides contract services to PMACC (Note 20). Contract service fees are equal to 15% of the Company’s gross revenues and are payable monthly.

18. Related Party Transactions (Continued)

Contract Services Agreements – Related Party (Continued)

The RMCO contract has a term of five years and shall renew automatically for two additional five-year periods, unless, on or before the date of renewal, the parties determine that the agreements shall not renew. For the years ended December 31, 2018 and 2017, RMCO billed the Company $5,757,731 and $6,801,312, respectively, for services rendered. At December 31, 2018 and 2017, the Company had amounts due to RMCO of $4,541,698 and $538,259, respectively.

Facility Leases– Related Party

The Company leases its cultivation facility, consisting of land, buildings, and improvements, located at 26889 Encinal Road, Salinas, California from Savature, a related party.

The lease agreement commenced on September 15, 2016 with a six-year term subject to an automatic five-year extension. The Company may elect out of the automatic extension by providing notice at least three months, but no earlier than six months, prior to the expiration of the initial term. The lease calls for escalating monthly rent amounts ranging from $185,895 to $801,550. For the years ended December 31, 2018 and 2017, total rent expense for the Farm was $4,397,275 and $2,086,866, respectively. Future minimum lease payments due under the lease are as follows:

Year Ending December 31st:	Amount
2019	$ 8,764,220
2020	9,288,630
2021	9,520,850
2022	4,007,750
	$ 31,581,450

19. Concentrations and Risks

Cash

At December 31, 2018 and 2017, the Company held cash totaling $2,237,347 and $925,944, respectively. As of December 31, 2018 and 2017, deposits in excess of federal deposit insurance levels totaled $917,383 and $732,517, respectively.

Market

The Company is limited to performing its primary activity in jurisdictions that have legalized the commercial cultivation and sale of cannabis.

19. Concentrations and Risks (Continued)

Customers

For the years ended December 31, 2018 and 2017, the Company derived all revenues from sales of cannabis and cannabis products.

Suppliers

The Company relies on FLRish, a related party, to provide a significant portion of the products and services used in its operations (Note 18).

California Operating Licenses

Effective January 1, 2018 the State of California allowed for adult use cannabis sales. Beginning on January 1, 2018, the State began issuing temporary licenses that expired 120 days after issuance for retail distribution and cultivation permits. The Company submitted their applications for the annual licenses in April 2018 and are operating under active temporary licenses which have been extended through various dates from October to July 2019.

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

Although the possession, cultivation and distribution of marijuana for medical and adult use is permitted in California, marijuana is a Schedule-I controlled substance and its use remains a violation of federal law. Since federal law criminalizing the use of marijuana preempts state laws that legalize its use, strict enforcement of federal law regarding marijuana would likely result in the Company’s inability to proceed with its activities. In addition, the Company’s assets, including real property, cash, equipment and other goods, could be subject to asset forfeiture because marijuana is still federally illegal.

20. Commitments and Contingencies

Employment Actions

A former employee filed suit against the Company alleging various employment rights issues. During 2018, the Company made a one-time settlement payment of $95,000 to resolve the suit.

The Company has been named as co-defendant in a separate suit brought by a former employee. The plaintiff alleges various employment rights issues. The matter is pending as of the date of the audit report and is anticipated to be arbitrated in November 2019.

20. Commitments and Contingencies (Continued)

Employment Actions (Continued)

The financial statement effects of this action cannot be reasonably estimated. Accordingly, the financials statements do not reflect any potential liability from the suit.

Leases:

Oakland, California - Dispensary

The Company leases its retail facility located at 1840 Embarcadero, Oakland California under a five-year non-cancellable operating lease expiring December 2020 from an unrelated party. Base rent under the lease is $27,115 increasing 2.5% annually.

The following is a schedule of future minimum rental payments due under the lease agreement for the years ending December 31st:

Year Ending December 31st	Amount
2019	$ 333,515
2020	341,852
	$ 675,367

Oakland, California – Parking

The Company leases forty-seven parking spots for its facility located at 1840 Embarcadero under a twelve-month non-cancelable operating lease expiring September 2018. The lease automatically renews at the end of each twelve-month term. The lease calls for a base rental rate of $9,870, increasing 3% upon each renewal. The following is a schedule of future minimum rental payments due under the lease agreement for the years ending December 31st:

Year Ending December 31st	Amount
2019	$ 91,495
	$ 91,495

San Jose, California – Dispensary

The Company leases its retail facility located at 1365 North 10th Street, San Jose, California under a ten-year non-cancellable operating lease expiring March 2025. Monthly base rental amounts are $39,000 which are increased annually by 2.75%. The Company has the option to extend the lease for two additional five-year terms after the expiration of the original lease term. The lease also calls for rental commissions equal to 0.4% of monthly gross sales.

20. Commitments and Contingencies (Continued)

San Jose, California – Dispensary (Continued)

The following is a schedule of future minimum rental payments due under the lease agreement for the years ending December 31st:

Year Ending December 31st	Amount
2019	518,152
2020	532,402
2021	547,043
2022	562,086
2023	577,543
Thereafter	742,783
	$ 3,480,009

For the years ended December 31, 2018 and 2017, rent expense for the facility was $576,641 and $553,701, respectively.

Contractual Obligations:

Software

On August 24, 2017, the Company entered into a software as a service contract with Treez, Inc. The contract calls for a one-time setup, integration, and training fee of $18,000. The initial term of the contract expired December 31, 2017. Thereafter, the contract converts to a three-month term. The contract carries a monthly fee of $6,000 for licensing and support.

Cultivation and Management Services

In September 2016, the Company entered into a service contract with Savature, Inc. (“Savature”), a related party (Note 18), to provide cultivation and management services to the Company. The contract 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 contract calls for the Company to reimburse Savature for all expenses related to the cultivation and management services provided (“Reimbursable Expenses”), except for the following: insurance, taxes, charitable contributions, and repairs and maintenance. Savature also charges an administration fee equal to 20% of the reimbursable expenses, which is payable monthly.

The contract also provides for fees to be paid from the Company to Savature based upon the sales performance of products produced under the contract (“MSA Fees”). The MSA Fee is based on a price mutually agreed upon by the Company and Savature. The Company records MSA Fees paid under this agreement as Management Service Fee Expense. MSA Fees are only recognized when the product is sold by the Company as this is the point at which the MSA Fees can be reasonably measured.

20. Commitments and Contingencies (Continued)

Cultivation and Management Services (Continued)

For the years ended December 31, 2018 and 2017, the Company was billed $11,177,813 and $7,880,698, respectively, for reimbursable expenses, administration fee, and MSA fees.

Retailing and Operations Agreement

On July 1, 2016, the Company engaged RMCO, a related party (Note 18), to provide services regarding the processing, retailing and dispensing of cannabis, cannabis infused products, and related products and educational materials in connection with the Company's operations. The contract has a term of five years and shall renew automatically for two additional five-year periods, unless, on or before the date of renewal, the Company or RMCO determine, in their sole discretion, that the agreement shall not renew. Fees for services rendered by RMCO are equal to 15% of the Company's gross revenues and are payable monthly.

For the years ended December 31, 2018 and 2017, the Company recognized fees to RMCO of $5,757,731 and $6,801,312, respectively, for services rendered.

Income Taxes

Patients Mutual Collective Corporation is involved in three pending United States Tax Court cases, which were consolidated for trial and briefing.

Each of these cases involve the same legal issue – the application of IRC Section 280E to the Company's business. Certain Tax Court precedent allows for an allocation between expenses that are directly related to "trafficking" in a controlled substance and expenses that are not. The IRS accepted that the figures on the returns were substantiated and accurate, but nevertheless seeks a complete disallowance of all expenses under 280E. The cases cover the corporate income tax returns for the fiscal years ending: July 31, 2007, July 31, 2008, July 31, 2009, July 31, 2010, July 31, 2011, and July 31, 2012.

Through deficiency notices, the IRS has asserted that the Company is liable for a tax deficiency for each of these tax years. In addition, the IRS is seeking to impose negligence penalties pursuant to IRC Section 6661(a) for each tax year. The Company filed petitions contesting the IRS's findings and challenging the applicability of 280E to its operations. The cases were tried before the United States Tax Court in June of 2016, and post-trial and reply briefs were submitted in January of 2017.

On November 30, 2018, the U.S. Tax Court ruled that Section 280E applies to any business which consists of trafficking in a controlled substance, and such businesses may not deduct their ordinary and necessary business expenses.

20. Commitments and Contingencies (Continued)

Income Taxes (Continued)

Based on pre-trial stipulations pertaining to the above-referenced cases, the Company expects the tax liability (the Tax Court has declined to impose any penalties) for the tax periods identified in this section is $11 million to $13 million; this estimate does not include interest.

SJW is involved in two pending tax court cases. Both cases involve the application of 280E. Certain Tax Court precedent allows for an allocation between expenses that are directly related to "trafficking" in a controlled substance and expenses that are not. The IRS accepted that the figures on the returns were substantiated and accurate, but nevertheless seeks a complete disallowance of all expenses under 280E. The cases cover the 2010, 2011, and 2012 corporate income tax returns. Through deficiency notices, the IRS has asserted that the Company is liable for a tax deficiency totaling $2,120,215 for these periods. The Company has filed petitions to contest the applicability of 280E to its operations. The SJW cases were stayed before the U.S. Tax Court pending the outcome of the above-described tax cases. SJW estimates that the deficiencies in tax and penalties asserted by the IRS, not including interest calculations, will be approximately $4.37 million.

21. Financial Instruments and Risk Management

Financial Instruments

The Company's financial instruments consist of cash, accounts payable and accrued liabilities; short-term note payable; and long-term debt. As of and during the years ended December 31, 2018 and 2017, there were no financial assets or liabilities valued at fair value.

Asset Forfeiture Risk

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture.

Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

Banking Risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry.

21. Financial Instruments and Risk Management (Continued)

Banking Risk (Continued)

Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the clients and leaves their cash holdings vulnerable.

Interest Risk

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. As at December 31, 2018, and December 31, 2017 the Company is not exposed to any significant credit risk related to counterparty performance.

At December 31, 2018 and 2017, the carrying amount of cash of $2,237,347 and $925,944, respectively, accounts receivable of $643,303 and $235,831, respectively, represent the maximum exposure to credit risk. The Company's credit risk is primarily attributable to its accounts receivables. The amounts disclosed in the consolidated statements of financial position are net of allowance for doubtful accounts, as estimated by management of the Company based on its assessment of the current economic environment.

The Company does not have significant exposure to any individual customer and has estimated bad debts of $0 at December 31, 2018 and 2017.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. At December 31, 2018, the Company had $2,237,347 and $925,944 of cash, respectively, and working deficit of $18,080,364 and $8,158,634, respectively. Based on the Company's ability to complete equity cash raises, management regards liquidity risk to be low.

22. Multi Party Merger Agreement

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

Under the terms of the MPMA, FLRish would escrow 1,204,819 shares of Series B Common Stock until either of the following occurred; a) a purchase agreement is obtained from the other 50% shareholder of PMACC ("Shareholder 2") or a forced buyout of the Shareholder 2's interests can occur and is exercised by Shareholder 1 and paid for by the Company at its discretion. In the event that neither of those events occur prior to the sixty-sixth (66th) month from the date the MPMA's effective date, the escrow shall be cancelled and the shares returned to FLRish.

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

On January 7, 2019, the Company entered into merger option agreements that superseded prior MPMA agreements providing the right to purchase, and merge into subsidiaries of FLRish, all of the interests of PMACC and SJW with Shareholder 1 and Shareholder 2. Pursuant to the terms of the merger option agreements, the Company has the right to exercise the merger options at any time. In exchange for the merger option, the Company issued 1,581,467 Series B Common Shares to Shareholder 1 and 2,469,781 Series B Common Shares to Shareholder 2. The proposed merger agreements will take place subject to the reverse takeover transaction described in Note 24.

23. Segmented Information

The Company currently operates in one segment, the production and sale of cannabis pursuant to state and local law.

24. Subsequent Events

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

Reverse Acquisition

On February 8, 2019, FLRish, Lineage Grow Company Ltd. ("Lineage") and Lineage Merger Sub Inc., a wholly owned subsidiary of Lineage ("Merger Sub"), entered into a merger agreement (the "Merger Agreement") pursuant to which, among other things, FLRish will complete the reverse takeover of Lineage (the "Transaction") (Note 22).

24. Subsequent Events (Continued)

Reverse Acquisition (Continued)

Pursuant to the Merger Agreement, Lineage will complete a consolidation of its common shares at a ratio to be determined, create subordinate voting shares and multiple voting shares, and reclassify its common shares on a post-consolidation basis as subordinate voting shares. FLRish and Merger Sub will then merge and, subject to the terms and conditions of the Merger Agreement, Lineage will acquire all of the issued and outstanding shares of FLRish in exchange for post-consolidation shares of Lineage. All convertible securities of FLRish will be exchanged for equivalent securities of Lineage which will, automatically and without any required action on the part of any holder or beneficiary thereof, entitle the holders to acquire securities of Lineage in lieu of securities of FLRish based on the same terms and subject to the same conditions as the existing convertible securities.

On completion of the Transaction, Lineage is expected to be renamed "Harborside, Inc." (the "Resulting Issuer") and the subordinate voting shares of the Resulting Issuer are expected to be listed for trading on the Canadian Securities Exchange. The Transaction remains subject to shareholder and regulatory approval. The Resulting Issuer will be owned as to approximately 94% by FLRish security holders and as to approximately 6% by Lineage shareholders. As a result, the Transaction will be accounted for as a business combination, with FLRish being identified as the acquirer.