FLRISH, INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

YEARS ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

Dated May 29, 2019

This management's discussion and analysis ("MD&A") of the financial condition and results of operations of FLRish, Inc. ("FLRish") and its wholly owned subsidiaries (together with FLRish, collectively, the "Company") has been prepared by management of the Company and is supplemental to, and should be read in conjunction with, the Company's audited consolidated financial statements and the accompanying notes for the years ended December 31, 2018 and 2017. In preparing this MD&A, management of the Company has taken into account information available up to May 29, 2019, unless otherwise stated.

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Financial information presented in this MD&A is presented in United States dollars ("$" or "US$"), unless otherwise indicated.

This MD&A has been prepared in accordance to the MD&A disclosure requirements established under National Instrument 51-102 Continuous Disclosure Obligations of the Canadian Securities Administrators.

This MD&A contains certain "forward-looking statements" and certain "forward-looking information" as defined under applicable United States securities laws and Canadian securities laws relating, but not limited to, the Company's future financial position and results of operations, strategies, plans, objectives, goals, targets, and future developments in the markets where the Company participates or is seeking to participate. Forward-looking information typically contains statements with words such as "consider", "anticipate", "believe", "expect", "plan", "intend", "may", "likely", or similar words suggesting future outcomes or statements regarding an outlook, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements of the Company to differ materially from those suggested by the forward-looking information and statements, some of which may be beyond the control of management.

Although the Company believes that the expectations, estimates, and projections reflected in such forward-looking information and statements are reasonable, such forward-looking information and statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and statements. On this basis, readers are cautioned not to place undue reliance on such forward looking information and statements. Please refer to the discussion of forward-looking statements and information set out under the heading "Cautionary Note Regarding Forward-Looking Statements" and "Item 17 – Risk Factors" in the Listing Statement of Lineage Grow Company Ltd. As a result of many factors, the Company's actual results may differ materially from those anticipated in these forward-looking statements and information.

The MD&A was prepared and approved by management of the Company on May 29, 2019.

OVERVIEW OF THE COMPANY

FLRish was incorporated on November 24, 2015, under the California Corporations Code in the United States of America. The Company includes FLRish and the following subsidiaries of FLRish:

Entity	**Place of incorporation**	**Effective ownership December 31, 2018**	**Effective ownership December 31, 2017**
FLRish IP, LLC	California	100%	100%
FLRish Retail, LLC	California	100%	100%
FLRish Retail Management & Security Services, LLC (RMCO)	California	100%	100%
FLRish Retail Affiliates, LLC	California	100%	100%
FLRish Flagship Enterprises, Inc. (formerly FLRish Farms, Inc.)	California	100%	100%
FLRish Farms, LLC (merged into Savature, Inc.)	California	100%	100%
Savature, Inc. (formerly Savature, LLC)	California	100%	68.5%
Savaca, LLC	California	100%	68.5%
FFC1, LLC	California	100%	68.5%
FLRish Farms Cultivation 8, LLC	California	100%	68.5%

The Company provides real estate rental, advisory and administrative services as well as services related to the processing, retailing and dispensing of cannabis, cannabis infused products ("CIPS"), related products, and educational materials connected with the operation of cannabis businesses located in the State of California. The Company only engages with those clients who are properly licensed and in good standing with State and local law.

Operating Divisions

The Company operates in one operating segment, management services, and has consolidated financial statements across its operating businesses. For the purpose of analysis, FLRish considers two operating divisions:

> *Retail* – provides management services to cannabis retail dispensaries to optimize Marketing, Operations, Compliance, Human Resources, Finance and IT
>
> *Wholesale* – provides management services to cultivate, manufacture, sell and distribute packaged cannabis products from our cultivation facility on behalf of our client dispensaries, who utilize our infrastructure to transform raw cannabis flower into consumer-packaged goods. FLRish enables its dispensary clients to gain leverage from being vertically integrated, and control the production supply chain, from seed to sale

The Company has options to merge and consolidate three retail dispensary businesses in Northern California and expects to secure additional California retail businesses in 2019. If FLRish exercises its options, the Wholesale and Retail operations will evolve from a services business to a products business, in which the Company will cultivate, manufacture, sell and distribute packaged cannabis products to third-party retailers and distributors, and from direct sales to end consumers in its retail stores.

Operational Drivers

Revenue is derived from long term management and lease agreements for our Wholesale business and through long term management service agreements for our Retail business.

Gross profit is revenue less cost of revenue. Cost of revenue are the costs directly attributable to the services we provide our clients and includes amounts paid for contract labor, production materials, utilities and infrastructure costs. Cannabis related costs are affected by various state regulations that limit the sourcing and procurement of cannabis product, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes. Gross margin measures our gross profit as a percentage of revenue.

Operating expenses (other than the cost of revenue) consist of general and administrative costs to support customer relationships, marketing and branding activities, and the corporate infrastructure required to sustain the ongoing business. General and administrative expenses also include costs incurred at the corporate offices, primarily related to personnel costs, including salaries, incentive compensation, and benefits. Operating expenses also include professional fees and share-based compensation costs. The Company expects such costs to increase to support aggressive expansion plans and navigate the increasing complexity of the cannabis industry. Furthermore, the Company expects to continue to incur acquisition and transaction costs related to these expansion plans and anticipates an increase in share-based compensation expenses related to recruiting and hiring talent, along with legal and professional fees associated with being a publicly traded company.

Provision for Income Taxes FLRish is subject to income taxes in the jurisdictions for which the Company operates and, consequently, income tax expense is a function of the allocation of taxable income by a jurisdiction and the various activities that impact the timing of taxable events. Companies operating in the US cannabis industry are subject to the limitations of IRC Section 280E under which taxpayers are only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E and a higher effective tax rate than most industries. Therefore, the effective tax rate can be highly variable and may not necessarily correlate to pre-tax income or loss.

SELECTED ANNUAL FINANCIAL INFORMATION

The following is selected financial data derived from the audited consolidated financial statements of the Company for the years ended December 31, 2018 and 2017. The selected consolidated financial information set out below may not be indicative of the Company's future performance:

Selected Financial Information	Year Ended December 31, 2018	Year Ended December 31, 2017
a) Total Revenue, net of discounts	$ 21,332,820	$ 14,682,010
Services - Retail	*5,946,252*	*7,512,536*
Services - Wholesale	*10,989,293*	*5,082,653*
Rental Revenue - Wholesale	*4,397,275*	*2,086,822*
b) Cost of Revenue	7,896,391	4,124,561
c) Gross Profit	13,436,429	10,557,449
d) Operating Expenses	21,053,866	15,279,638
e) **Loss from Operations**	**$ (7,617,437)**	**$ (4,722,189)**
f) Other Income (Expense)	$ (2,986,785)	$ (1,221,010)
g) Provision of Income Taxes	$ 8,000	$ 10,400
Current Assets	$ 34,913,897	$ 11,282,355
Total Assets	$ 50,923,946	$ 20,597,134
Total Liabilities	$ 53,750,473	$ 21,403,590

a) Revenue

Revenue for the fiscal year ended December 31, 2018 was $21,332,820 up 45% from $14,682,010 for fiscal year ending December 31, 2017.

Retail services revenue for the year ended December 31, 2018 was $5,946,252, a decline of $1,566,284 or 21% from fiscal year ended December 31, 2017. The Company earns retail services revenue through its subsidiary, FLRish Retail Management & Security Services, LLC, from contractual relationships with client dispensaries to provide management services for licensed cannabis retailers. In 2018 and 2017 all retail management services revenue was generated from one related party, PMACC. Our retail management services revenue is derived from and aligned to PMACC sales, which experienced a year over year revenue decline due to regulatory changes that negatively impacted PMACC's retail business.

Wholesale services and rental revenue for the year ended December 31, 2018 was $15,386,568, up $8,217,093 or 115% from year ended December 31, 2017. The Company earns wholesale services revenue from contractual relationships with licensed manufacturers and client dispensaries for providing management services and infrastructure leases. Wholesale management services revenue for the years ended December 31, 2018 and 2017 were $10,989,293 and $5,082,653, respectively. For the years ended December 31, 2018 and 2017, all wholesale management services revenue was generated from one related party, PMACC. Our wholesale management services revenue is derived from and aligned to PMACC's wholesale production at our Farm, which improved during the year ended December 31, 2018 with the engagement of a new cultivation team in 2018. Wholesale rental revenue for the years ended December 31, 2018 and 2017 were $4,397,275 and $2,086,822, respectively and consistent with the terms of the PMACC lease agreement with the Company.

b) Cost of Revenue

Cost of revenue are costs directly attributable to the services the Company provides its clients and includes amounts paid for contract labor, production materials, utilities and infrastructure. For the year ended December 31, 2018, cost of revenue was $7,896,391, up $3,771,830 or 91% compared to the year ended December 31, 2017, driven by cost increases primarily in labor, utilities, and infrastructure to scale up our Farm operations.

c) Gross Profit

Gross profit for the year ended December 31, 2018 was $13,436,428 representing a gross margin on management services of 63%, compared to gross profit for the year ended December 31, 2017 of $10,557,449 or a 72% gross margin. The 9% decline in gross margin is primarily attributed to the cost of cultivation services, for labor, utilities and infrastructure which increased to support our growing business.

d) Operating Expenses

Operating expenses for the year ended December 31, 2018 were $21,053,866, up $5,774,2288 or 38% from the prior year. Expense increases are primarily attributable to the following: increase in share-based compensation of $4,583,816; increase in professional fees related to Series B unit offering and accounting fees of $1,619,261; increase in credit loss reserve of $1,680,572, offset by decrease in impairment loss of $3,637,574. See Notes 8 and 24(e) of the Company's audited financial statements for the years ended December 31, 2018 and 2017 for further detail regarding the Series B unit offering.

e) Loss from Operations

Net loss from operations before other income (expense), provision for income taxes and non-controlling interest for the year ended December 31, 2018 was $7,617,437, an increase of $2,895,248 from year ended December 31, 2017.

f) Other Expense

Other expenses for the year ended December 31, 2018 totaled $2,986,785, an increase of $1,765,775 or 145% compared to the year ended December 31, 2017. The increase is primarily due to increase in interest expense from $1,267,867 in 2017 to $1,928,411 in 2018. The increase in interest expense is primarily related to the term loan agreement, which the Company entered into in July 2017 and the Series B convertible debentures offset by a reduction in interest expense associated with the convertible debentures which converted to equity during the year ended December 31, 2018 and further offset by the amortization of the note discount associated with the related party note receivable. In addition, the Company recognized a loss on debt extinguishment in the amount of $1,098,671 for the year ended December 31, 2018 with no such loss for the year ended December 31, 2017.

g) Provision for Income Taxes

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using the tax rates enacted or substantively enacted at year-end. For the year ended December 31, 2018, the Company's income tax provision totaled $8,000 compared to $10,400 for the year ended December 31, 2017.

Current Assets

Current assets increased $23,631,542 from December 31, 2017 to December 31, 2018. The increase was mainly attributable to an increase in net cash provided from the issuance of Series B convertible debentures and Series A-1 Preferred Stock and an increase in accounts receivable due to revenue growth.

Total Liabilities

The increase in total liabilities was primarily attributable to the issuance of Series B convertible debentures and the associated derivative liabilities offset by a decrease in notes payable.

Non-IFRS Measures

The following information provides reconciliations of the supplemental non-IFRS financial measures, presented herein to the most directly comparable financial measures calculated and presented in accordance with IFRS. The Company has provided the non-IFRS financial measures, which are not calculated or presented in accordance with IFRS, as supplemental information and in addition to the financials measures that are calculated and presented in accordance with IFRS. These supplemental non-IFRS financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believe that the supplemental non-IFRS financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. These supplemental non-IFRS measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the IFRS financial measures presented.

"**Adjusted EBITDA**" is a metric used by management which is net loss, as reported, before interest, provision for income taxes, and adjusted for removing other non-cash items, including depreciation and amortization, share-based compensation, non-cash gain on sale of investment, non-cash loss on debt extinguishment, and the non-cash effects of accounting for change in fair value of derivative liability.

Non-IFRS Measures	**Year Ended December 31, 2018**	**2017**
Net Loss (IFRS)	**$ (10,612,222)**	**$ (5,953,599)**
Interest expense	1,928,411	1,267,867
Provision for income taxes	8,000	10,400
Depreciation and amortization	670,798	250,283
Share-based compensation	4,678,055	94,239
Gain on sale of investment	-	(334,186)
Loss on Debt Extinguishment	1,098,671	-
Change in Fair Value of Derivative Liability	(295,998)	-
Adjusted EBITDA (non-IFRS measure)	**$ (2,524,285)**	**$ (4,664,996)**

After adjusting for interest expense, provision for income taxes, and non-cash expenditures, adjusted EBITDA was ($2,524,285) and ($4,664,996) for the years ended December 31, 2018 and 2017, respectively.

LIQUIDITY & CAPITAL RESOURCES

Overview

Our primary need for liquidity is to fund working capital requirements of our business, capital expenditures, debt service and for general corporate purposes. Our primary source of liquidity is funds generated by operating activities. We also use private and/or public financing as a source of liquidity for short-term working capital needs and general corporate purposes. Our ability to fund our operations, to make planned capital expenditures, to make scheduled debt payments and to repay or refinance indebtedness depends on our future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond our control.

As at December 31, 2018, the Company had $14,762,661 of cash and working capital (current assets minus current liabilities) of $27,352,945, compared with $1,490,612 of cash and cash equivalents and a working capital deficit of $5,909,535 as of December 31, 2017. The increase of $33,262,480 in our working capital was primarily due to a reduction of $12,007,388 in convertible notes and accrued interest that were converted to equity in 2018 as part of the Series A financing. In addition, cash increased from the issuance of Series B convertible debentures and Series A-1 Preferred Stock and accounts receivable increased due to revenue growth.

We expect that our cash on hand and cash flows from operations, along with private and/or public financing, will be adequate to meet our capital requirements and operational needs for the next 12 months from the date of this MD&A.

Cash Flows

Cash Used in Operating Activities – Net cash used in operating activities was $10,886,141 for the year ended December 31, 2018, an increase of $5,044,462, or 86%, compared to $5,841,679 of net cash used in operating activities for the year ended December 31, 2017. The increase in net cash used in operating activities was primarily due to an increase of adjusted net loss (net loss including adjustments to reconcile net loss to net cash used in operating activities) of $2,584,724, and an increase in net Accounts Receivable and Accounts Payable – Related Party of $3,325,930, offset by total increase in other changes in operating assets and liabilities of $866,192.

Cash Used in Investing Activities – Net cash used in investing activities was $9,897,053 for the year ended December 31, 2018, an increase of $7,690,130, or 348%, compared to $2,206,923 for the year ended December 31, 2017. The increase in net cash used in investing activities was primarily due to $5,515,266 in advances to related party, PMACC and $5,564,744 of purchases of property and equipment.

Cash Provided by Financing Activities – Net cash provided by financing activities was $34,055,243 for the year ended December 31, 2018, an increase of $28,850,377, or 554%, compared to $5,204,866 for the year ended December 31, 2017. The increase in net cash provided by financing activities is primarily attributable to $25,693,490, $5,167,500, and $5,207,881 in net proceeds received from our Series B unit offering, notes payable, and Series A Preferred Stock offering, respectively. See Notes 8 and 23(d) of the Company's audited financial statements for the years ended December 31, 2018 and 2017 for further detail regarding the Series B unit offering.

Off-Balance Sheet Arrangements

As at the date of this filing, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

Related Party Transactions

PMACC

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

At December 31, 2018 and 2017, the Company had accounts receivable balance with PMACC in the amount of $20,081,652 and $9,641,424 net of $2,065,918 and $0 allowance for credit loss, respectively. The outstanding accounts receivable balances due from PMACC are unsecured and expected to be settled with cash.

In December 2017, the Company sold its interests in a cannabis license located in San Leandro, California to PMACC. The Company recognized a gain on the sale in the amount of $2,500,000. As a result of the transaction, the Company entered into a note receivable with PMACC with a principal amount of $3,000,000 at a 2% interest rate. All principal and accrued interest totaling $3,520,064 are payable in a balloon payment due December 25, 2025. Due to the interest rate being below market, the Company recorded a discount in the amount of $2,165,814 on the note receivable based on an annual rate of 12%. The discount is amortized at a monthly rate of $22,561. At December 31, 2017, the note had a net discount of $2,161,302. As a result, the net gain on the sale of investment was $334,186 at December 31, 2017. At December 31, 2018, the note had principal outstanding of $2,729,231, accrued interest of $62,256, and discount of $1,890,570.

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

San Jose Wellness

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

Lineage Grow Company

On November 16, 2018, the Company issued a promissory note to Lineage Grow Company with a principal amount of $1,515,266 bearing interest at a rate of 12%. All principal and accrued interest is payable in a balloon payment due November 19, 2019. At December 31, 2018, the note had principal outstanding of $1,515,266, accrued interest of $23,203.

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

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

		2018		2017
Management compensation	$	1,539,726	$	1,611,945
Directors' fees		5,000		-
Share-based payments		1,925,516		57,986
	$	**3,470,242**	**$**	**1,669,931**

CHANGES IN OR ADOPTION OF ACCOUNTING PRACTICIES

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

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. The Company is assessing the potential impact of IFRS 16 on its consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

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.

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.

Share-Based Compensation

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

Estimated Useful Lives and Depreciation of Property and Equipment

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

Warrants

The Company uses the Black-Scholes option pricing model and the Monte Carlo Simulation Model to determine the fair value of its warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of warrants, volatility of the Company's share price, risk free rates, and dividend yields. Changes in assumptions used to estimate fair value could result in materially different results. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

Fair Value of Financial Instruments

Individual fair values are attributed to the different components of a financing transaction, notably convertible debt, promissory notes and warrants. The Company uses judgment in selecting the methods used to make certain assumptions and in performing the fair value calculations in order to determine (i) the values attributed to each component of a transaction at the time of their issuance; (ii) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (iii) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding these instruments are disclosed in Note 8.

Convertible Debentures

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

Derivative Liability

The Company uses the fair-value method of accounting for derivative liability and such liability is remeasured at each reporting date with changes in fair value recorded in the period incurred. The fair value is estimated using the Monte Carlo method.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

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

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

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

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

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

	Category	Level 1	Level 2	Level 3	Total
December 31, 2018		$	$	$	$
Financial Liabilities					
Convertible Debentures	FVTPL			17,679,766	17,679,766
Derivative Liabilities	FVTPL			28,126,745	28,126,745

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

The conversion feature in the Series B Debenture, the warrants issued in the Series B Debenture Unit and the conversion feature in the Series A Preferred Stock were valued using a Monte Carlo simulation model to estimate their value as of the date of issuance and as of December 31, 2018. The most significant assumption used in these valuations was the expected volatility of the Company's shares.

Risk Management

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

Market Risk

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

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. 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 Rate Risk

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

Capital Structure Risk Management

The Company considers its capital structure to include debt financing, contributed capital, accumulated deficit, non-controlling interests and any other component of stockholders' 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 stock, 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 year ended December 31, 2018.

Credit Risk

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

At December 31, 2018 and 2017, the carrying amount of cash was $14,762,661 and $1,490,612, respectively, accounts receivable was $20,081,652 and $9,641,424, respectively, and notes receivable was $6,496,786 and $1,893,772, respectively, represent the maximum exposure to credit risk.

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

The Company has significant exposure to a single customer, PMACC. In order to determine the allowance for credit losses, the Company conducts an analysis of the customer and its customary pay practices and the terms of the contract under which the obligation arose. Based on the review the Company recorded a provision for credit losses of $2,065,918 and $0 at December 31, 2018 and December 31, 2017.

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

		December 31, 2018		December 31, 2017
0 - 60 days	$	4,024,633	$	7,546,475
61+ days	$	18,122,937		2,094,948
	$	**22,147,570**	**$**	**9,641,424**

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 and 2017, the Company had cash of $14,762,661 and $1,490,612, respectively, and working capital of $27,352,945 and working deficit of $5,909,535, respectively.

The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's ability to complete equity cash raises, management regards liquidity risk to be low.

In addition to the commitments outlined in Note 20, the Company has the following contractual obligations:

	Total	< 1 year	1 - 3 years	3 - 5 years	> 5 years
Accounts payable and accrued liabilities	$ 5,961,141	$ 5,961,141	$ -	$ -	$ -
Notes payable and accrued interest	1,561,258	1,561,258	-	-	-
Convertible debentures	17,679,766	-	17,679,766	-	-
Derivative liabilities	28,126,745	-	28,126,745	-	-
	$ 53,328,910	**$ 7,522,399**	**$ 45,806,511**	**$ -**	**$ -**

Foreign Exchange Risk

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

The following is an analysis of the U.S. dollar equivalent of financial assets and liabilities that are denominated in Canadian dollars at December 31, 2018:

Financial Assets	
Cash	$ 2,281,501
	$ 2,281,501
Financial Liabilities	
Convertible Debentures	$ 17,679,766
Derivative Liabilities	28,126,745
	$ 45,806,511