Financial Statements and
Independent Auditor's Report of

NORTH STATE GROCERY, INC.

December 29, 2018 and December 30, 2017

NORTH STATE GROCERY, INC.

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North State Grocery, Inc.
Cottonwood, California

Report on the Financial Statements

We have audited the accompanying financial statements of North State Grocery, Inc. (a California Corporation), which comprise the balance sheet as of December 29, 2018, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North State Grocery, Inc. as of December 29, 2018, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

The financial statements of North State Grocery, Inc. for the year ended December 30, 2017, before the restatement described in Note 2, were audited by another auditor whose report dated June 8, 2018, expressed an unmodified opinion on those statements.

As part of our audit of the December 29, 2018 financial statements, we also audited the adjustments described in Note 2 that were applied to restate the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the entity other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of gross profit and operating expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Campbell Taylor & Company
An Accountancy Corporation

Roseville, California
May 31, 2019

NORTH STATE GROCERY, INC.

BALANCE SHEETS
December 29, 2018 and December 30, 2017

ASSETS

	2018	2017
Current Assets:		*(restated)*
Cash and cash equivalents	$ 6,739,984	$ 6,755,579
Accounts receivable, net	54,015	64,979
Other receivables, net	1,813,467	944,847
Merchandise inventory	11,220,545	10,277,424
Prepaid expenses	873,082	1,633,910
Total current assets	20,701,093	19,676,739
Property and equipment, net	21,087,580	15,347,940
Other Assets:		
Off-sale liquor licenses	631,014	581,014
Investment in real estate	6,227,744	3,331,659
Goodwill, net	5,399,847	1,054,006
Deposits	624,674	556,062
Other long-term asset	337,853	-
Cash surrender value of officers' life insurance	363,531	303,217
Total other assets	13,584,663	5,825,958
Total assets	$ 55,373,336	$ 40,850,637

The accompanying notes are an integral part of these statements.

NORTH STATE GROCERY, INC.

BALANCE SHEETS (Continued)
December 29, 2018 and December 30, 2017

LIABILITIES AND STOCKHOLDER'S EQUITY

	2018	2017 *(restated)*
Current Liabilities:		
Trade accounts payable and disbursements outstanding	$ 7,684,301	$ 8,773,513
Accrued payroll	2,980,645	2,172,472
Accrued liabilities	4,303,496	1,993,943
Capital lease obligations, current portion	4,455	14,577
Long-term debt with related parties, current portion and debt discount	1,207,019	1,173,229
Long-term debt, current portion	1,884,259	2,101,599
Total current liabilities	18,064,175	16,229,333
Long-term Liabilities:		
Capital leases, net of current portion	682	5,137
Long-term debt with related parties, net of current portion and debt discount	20,186,233	21,391,907
Long-term debt, net of current portion and deferred financing costs	17,404,680	10,540,876
Warrant liability	6,220,219	3,691,731
Deferred income taxes	-	15,483
Total long-term liabilities	43,811,814	35,645,134
Total liabilities	61,875,989	51,874,467
Stockholder's Equity:		
Common stock, no par value, 1,000,000 shares authorized, 222,800 shares issued, and 102,800 outstanding	5,140	5,140
Additional paid-in capital	6,586,823	4,808,166
Unearned ESOP shares	(349,641)	(466,188)
Accumulated deficit	(12,744,975)	(15,370,948)
Total stockholder's equity	(6,502,653)	(11,023,830)
Total liabilities and stockholder's equity	$ 55,373,336	$ 40,850,637

The accompanying notes are an integral part of these statements.

NORTH STATE GROCERY, INC.

STATEMENTS OF INCOME
For The Years Ended December 29, 2018 and December 30, 2017

	2018		2017	
	Amount	Percent	Amount	Percent
Sales, net	$ 232,708,424	100.0%	$ 206,244,736	100.0%
Cost of sales	165,947,158	71.3%	149,183,946	72.3%
Gross profit	66,761,266	28.7%	57,060,790	27.7%
Lottery income	86,895	0.0%	145,108	0.1%
Money order fees	7,740	0.0%	8,599	0.0%
Miscellaneous income	927,126	0.4%	316,494	0.2%
Total operating revenues	67,783,027	29.1%	57,530,991	27.9%
Operating Expenses	59,786,185	25.7%	50,848,668	24.7%
Income from operations	7,996,842	3.4%	6,682,323	3.2%
Other income (expenses):				
Change in fair value of warrant liability	(2,528,488)	-1.1%	(1,498,078)	-0.7%
Interest income	13,425	0.0%	5,844	0.0%
Interest expense	(2,779,812)	-1.2%	(2,565,712)	-1.2%
Total other expenses, net	(5,294,875)	-2.3%	(4,057,946)	-2.0%
Income before income tax expense	2,701,967	1.2%	2,624,377	1.3%
Income tax expense	75,994	0.0%	59,000	0.0%
Net income	$ 2,625,973	1.1%	$ 2,565,377	1.2%

The accompanying notes are an integral part of these statements.

NORTH STATE GROCERY, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
For The Years Ended December 29, 2018 and December 30, 2017

	Common Stock		Additional	Unearned		
	Shares	Amount	Paid-In Capital	ESOP Shares	Accumulated Deficit	Total
Balance at December 31, 2016 *(restated)*	102,800	$ 5,140	$ 3,261,071	$ (582,735)	$ (17,936,325)	$ (15,252,849)
ESOP shares allocated	-	-	1,547,095	116,547	-	1,663,642
Net income	-	-	-	-	2,565,377	2,565,377
Balance at December 30, 2017 *(restated)*	102,800	5,140	4,808,166	(466,188)	(15,370,948)	(11,023,830)
ESOP shares allocated	-	-	1,778,657	116,547	-	1,895,204
Net income	-	-	-	-	2,625,973	2,625,973
Balance at December 29, 2018	102,800	$ 5,140	$ 6,586,823	$ (349,641)	$ (12,744,975)	$ (6,502,653)

The accompanying notes are an integral part of these statements.

NORTH STATE GROCERY, INC.

STATEMENTS OF CASH FLOWS
For The Years Ended December 29, 2018 and December 30, 2017

	2018	2017
		(restated)
Cash Flows from Operating Activities:		
Net income	$ 2,625,973	$ 2,565,377
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation expense	2,559,029	2,273,468
Amortization of deferred financing costs and debt discount	460,332	350,710
Amortization of goodwill	557,990	-
Loss on disposition of property and equipment	122,035	122,037
Increase in cash surrender value of life insurance	(60,314)	(57,904)
Change in fair value of warrant liability	2,528,488	1,498,078
Change in deferred income taxes	(15,483)	-
Compensation for ESOP shares committed to be released	1,895,204	1,663,642
Change in operating assets and liabilities, net of effects of business combinations:		
(Increase) decrease in assets:		
Accounts receivables	10,964	1,159
Other receivables	(868,620)	88,078
Merchandise inventory	285,468	33,346
Prepaid expenses	760,828	(606,758)
Other long-term assets	(337,853)	-
Deposits	(68,612)	(316,114)
Increase (decrease) in liabilities:		
Trade accounts payable and disbursements outstanding	(1,089,212)	1,049,316
Accrued payroll	808,173	574,375
Accrued liabilities	2,313,468	(9,877)
Net cash provided by operating activities	12,487,858	9,228,933
Cash Flows from Investing Activities:		
Business combinations, net of cash acquired	(8,414,768)	-
Proceeds from sale of property and equipment	-	793,710
Purchase of real estate	(900,000)	(1,927,000)
Purchase of property and equipment	(8,188,356)	(2,537,306)
Net cash used for investing activities	(17,503,124)	(3,670,596)

The accompanying notes are an integral part of these statements.

NORTH STATE GROCERY, INC.

STATEMENTS OF CASH FLOWS (Continued)
For The Years Ended December 29, 2018 and December 30, 2017

	2018	2017
		(restated)
Cash Flows from Financing Activities:		
Payment on capital leases	$ (14,577)	$ (44,691)
Principal payments on long-term debt with related parties	(1,480,523)	-
Proceeds from borrowings on long-term debt	7,937,660	1,900,000
Principal payments on long-term debt	(1,201,068)	(6,823,740)
Capitalized debt issuance costs	(241,821)	-
Net cash provided by (used for) financing activities	4,999,671	(4,968,431)
Net change in cash and cash equivalents	(15,595)	589,906
Cash and cash equivalents		
Beginning of period	6,755,579	6,165,673
End of period	$ 6,739,984	$ 6,755,579
Supplemental schedule of cash flow information:		
Cash paid during the year for interest charges	$ 2,715,621	$ 2,586,345
Income taxes paid	$ 91,000	$ 149,000

Supplemental disclosure of non-cash transactions:

During January 2018, the Company refinanced an existing debt obligation by entering into a commercial credit agreement with a different financial institution. Upon entering into the new agreement, borrowings of $9,419,047 were used to satisfy the outstanding debt obligation with the previous lender.

The accompanying notes are an integral part of these statements.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

North State Grocery, Inc. (the Company) engages in the business of retail grocery and fuel sales. As of the balance sheet date, operations consisted of stores in twenty-two locations, two with fuel stations, twenty-one of which are located in Northern California and one in Southern Oregon.

Accounting Period and Basis of Accounting

The Company has adopted a 52-week/53-week accounting year, which ends on the last Saturday in December. The fiscal year ended December 29, 2018 was comprised of a 52-week year and the fiscal year ended December 30, 2017 was comprised of a 52-week year. The financial statements are prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Other Receivables

Included in accounts receivable and other receivables are trade receivables that represent amounts billed but not collected in connection with vendor allowances and rebates, as well as other trade and non-trade receivables. The Company's policy is not to accrue interest on accounts receivable. Collateral on accounts receivable is generally not required. Management evaluates accounts to determine collection risks and allowances for doubtful accounts are recorded when considered necessary. Customer account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. Management believes an adequate allowance for doubtful accounts receivable has been provided. The Company has established an allowance for doubtful accounts of $14,857 and $6,244 at December 29, 2018 and December 30, 2017, respectively.

Merchandise Inventory

Merchandise inventory is valued at the lower of cost or net realizable value, with cost determined using the first-in, first-out method, on an average cost method.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Maintenance and repair costs are expensed as they are incurred while renewals and improvements of a significant nature are capitalized. At the time of retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results of operations.

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows; an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. No provision for impairment was recorded in 2018 or 2017.

NOTE 1: **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investment in Real Estate

The Company has invested in various real estate assets. These assets are recorded at cost. The Company reviews these assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The Company reviewed for impairment at December 29, 2018 and December 30, 2017 and believes no adjustments are needed.

Goodwill

The Company has classified as goodwill the cost in excess of the fair value of net assets acquired in business combinations. During 2018 the Company adopted Accounting Standards Update No. 2014-02, *Intangibles-Goodwill and Other*, electing the accounting alternative for amortizing goodwill on a straight line basis over a 10 year period, or shorter period if that period is more appropriate. Entities making the election will test goodwill for impairment only when a triggering event occurs, instead of annually. At December 29, 2018, management does not believe there to be any impairment of goodwill. The Company has elected to amortize goodwill over ten years beginning January 1, 2018. The Company will perform any tests for impairment of goodwill at the entity level.

Off-Sale Liquor Licenses

Off-sale liquor licenses are recorded at cost and written off upon expiration.

Debt Discount

U.S. GAAP requires stock warrants issued with debt to be fair valued and recorded as a discount against the related debt as well as additional paid in capital or a liability depending on the characteristics of the warrants. As discussed in Note 8 and Note 13, the Company issued debt with related warrants in exchange for a stock repurchase in 2016. The warrants have been recorded at their initial fair value as a debt discount against the related party note payable arising from the financing for the stock repurchase. The discount is being amortized to interest expense over the life of the loan utilizing the effective interest method. Interest expense related to the debt discount was $308,639 and $325,667 for the periods ended December 29, 2018 and December 30, 2017, respectively.

Income Taxes

The Company has elected to be treated as an S-Corporation for federal and state income tax purposes. Taxable income is passed through to the stockholder. The Company's sole stockholder is its Employee Stock Ownership Plan (ESOP). The Company pays no Federal income taxes and does not record deferred income taxes because they are not significant. The State of California imposes an income tax of 1.5% on state taxable income. State income taxes are reduced by tax credits when they become available.

The Company has adopted a non-calendar, fiscal accounting year-end and is therefore required to maintain a deposit with the Internal Revenue Service (IRS) which approximates the maximum tax the Company's stockholders could defer through the Company's use of a non-calendar tax year-end.

The Company has evaluated income tax positions in accordance with ASC 740-10 and has determined that there are no uncertain tax positions as of December 29, 2018. The Company's policy is to recognize interest and penalties relating to income taxes in interest expense and other expenses, respectively. The Company is subject to routine audits by taxing authorities; there are currently no audits for any tax periods in progress. The Company is open to examination for the previous three to four years by various taxing authorities.

Revenue Recognition

Revenue is recognized at the point of sale for retail sales. Revenue is recorded net of sales returns. Vendor coupons that are reimbursed are accounted for as sales. Coupons and other sales incentives offered by the Company that are not reimbursed are recorded as a reduction of sales. Gift card purchases are recorded as a current liability and revenue is recognized when it is redeemed for merchandise.

NOTE 1: **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Supplier Rebates

The Company enters into agreements with certain vendors providing for rebates based upon the volume of inventory purchases. The Company accrues the receipt of rebates based on purchases and records vendor rebates as a reduction of the cost of inventory purchased.

Sales Tax

The State of California and counties within the State impose a sales tax on certain products the Company sells to customers. The Company collects sales tax from customers and remits the entire amount to the State. The Company's accounting policy is to exclude the tax collected and remitted to the State from revenue and cost of sales.

Shipping and Handling Costs

Shipping and handling costs are included with cost of sales.

Advertising Costs

Advertising costs are recognized as an expense when incurred. Advertising expenses for the years ending December 29, 2018 and December 30, 2017 were $197,125 and $180,302, respectively.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in the preparation of these financial statements include the estimated lives of property and equipment, valuation of inventory, real estate, goodwill, stock warrants, certain other receivables, accrued liabilities, and share-based compensation.

Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any loss in such accounts and believes it is not exposed to any significant risk of loss on cash.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new accounting standard develops a common revenue standard that will remove inconsistencies and weaknesses in revenue requirements, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, provide more useful information to users of financial statements, and simplify the preparation of financial statements. In August 2015, the FASB deferred the original implementation date by one year. Application of this standard is effective for the Company for the year ending December 29, 2019. The Company is currently evaluating the impact of adoption of the new standard on its financial statements.

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The new accounting standard requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases. Application of this standard is effective for the Company for the year ended December 28, 2020. The Company is currently evaluating the impact of adoption of the new standard on its financial statements.

NOTE 2: **RESTATEMENT**

During the current year, management discovered (and corrected) errors in how the Company was reconciling pre-payments to its primary supplier with store level invoices and deliveries, resulting in an overstatement of previously reported cash and prepaid expenses. Accordingly, an adjustment of $820,069 was made to decrease cash and prepaid expenses as of December 30, 2017. A corresponding entry was made to increase accumulated deficit as of December 31, 2016 by $820,069.

The effects of the restatement on the Company's balance sheet is as follows:

	December 30, 2017		
	Previously Reported	Accrual Adjustments	Restated
Current Assets			
Cash	$ 6,942,165	$ (186,586)	$ 6,755,579
Prepaid expenses	$ 2,267,393	$ (633,483)	$ 1,633,910
Stockholder's Equity			
Accumulated deficit	$ (14,550,879)	$ (820,069)	$ (15,370,948)

The effects of the restatement on the Company's statements of changes in stockholder's equity is as follows:

	Retained Earnings (Accumulated Deficit)		
	Previously Reported	Accrual Adjustments	Restated
Balance			
December 31, 2016	$ (17,116,256)	$ (820,069)	$ (17,936,325)
December 30, 2017	$ (14,550,879)	$ (820,069)	$ (15,370,948)

The effects of the restatement on the Company's statement of cash flows is as follows:

	December 30, 2017		
	Previously Reported	Accrual Adjustments	Restated
Cash and cash equivalents			
Beginning of period	$ 6,352,259	$ (186,586)	$ 6,165,673
End of period	$ 6,942,165	$ (186,586)	$ 6,755,579

NOTE 3: **MERCHANDISE INVENTORY**

Merchandise inventory consisted of the following at December 29, 2018 and December 30, 2017:

	2018	2017
Grocery	$ 5,386,542	$ 5,178,549
Liquor	1,676,291	1,452,958
General merchandise	1,592,959	1,490,764
Meat	1,133,536	952,715
Bakery/Deli	625,160	528,911
Produce	423,257	382,500
Lottery	175,180	137,295
Supplies	128,537	89,496
Gasoline	79,083	64,236
Total merchandise inventory	$ 11,220,545	$ 10,277,424

NOTE 4: **PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 29, 2018 and December 30, 2017:

	2018	2017
Fixtures and equipment	$ 23,183,852	$ 20,582,452
Leasehold improvements	11,683,569	9,058,367
Construction in progress	3,516,407	1,234,224
Office equipment	1,901,360	1,925,614
Vehicles	578,902	548,566
	40,864,090	33,349,223
Less accumulated depreciation	(19,776,510)	(18,001,283)
Total property and equipment, net	$ 21,087,580	$ 15,347,940

Depreciation expense was $2,599,029 and $2,273,468 for the years ended December 29, 2018 and December 30, 2017, respectively.

NOTE 5: **INVESTMENT IN REAL ESTATE**

Investment in real estate consists of the following at December 29, 2018 and December 29, 2017:

	2018	2017
South Lake Tahoe	$ 2,000,000	$ -
Hartnell/Leonard lots	1,390,651	1,390,651
Klamath Falls, Oregon	1,900,000	1,900,000
Hartnell/Shasta View lot	900,000	-
Chester lots	37,093	37,093
Corning, California lot	-	3,915
Total investment in real estate	$ 6,227,744	$ 3,331,659

NOTE 6: GOODWILL

Goodwill resulting from business combinations consists of following at December 29, 2018 and December 30, 2017:

	2018	2017
Goodwill	$ 5,957,837	$ 1,054,006
Less accumulated amortization	(557,990)	-
Total goodwill, net	$ 5,399,847	$ 1,054,006

Goodwill amortization of $557,990 was charged to operations in 2018.

NOTE 7: LINE OF CREDIT

The Company entered into a commercial credit agreement with a bank effective January 29, 2018. The agreement includes a $5 million revolving line of credit, a term loan not to exceed $10 million, and a $30 million non-revolving term loan for investing and approved financing activities. Borrowings are secured by inventory, property and equipment, and accounts receivable.

The revolving line of credit expires January 2023 and borrowing bear interest at LIBOR plus 2% (4.52% at December 29, 2018). There were no amounts outstanding under the revolving line of credit at December 29, 2018.

Borrowing under the term loan and the non-revolving term loan features are included in long-term debt.

The credit agreement stipulates that the Company must meet certain financial covenants including maximum leverage ratios and minimum debt service ratios.

NOTE 8: LONG-TERM DEBT WITH RELATED PARTIES

Long–term debt with related parties consisted of the following at December 29, 2018 and December 30, 2017:

	2018	2017
Note payable to Richard Morgan, Jr., related party, interest rate of 7% monthly payments totaling $104,167. Maturity of June 2023. Subordinated to Bank.	$ 21,979,167	$ 23,229,167
Note payable to Lavonne Morgan, Jr., related party, payable in monthly installments of $15,000, including interest at 7.00%, with an additional annual principal payments of $100,000, due February 2020	592,234	822,757
Total related party long-term debt	22,571,401	24,051,924
Less unamortized debt discount, net of current portion	(1,178,149)	(1,486,788)
Less current portion, including debt discount	(1,207,019)	(1,173,229)
Long-term debt with related parties, net of current portion and debt discount.	$ 20,186,233	$ 21,391,907

NOTE 8: **LONG-TERM DEBT WITH RELATED PARTIES (Continued)**

Future maturities on long-term debt with related parties are as follows:

Fiscal Year Ending:	
December 29, 2019	$ 1,498,630
December 28, 2020	1,516,603
December 26, 2021	1,327,001
December 25, 2022	1,250,000
December 28, 2023	16,979,167
	$ 22,571,401

NOTE 9: **LONG-TERM DEBT**

Long–term debt consisted of the following at December 29, 2018 and December 30, 2017:

	2018	2017
Note payable to bank, monthly payments include principal of $112,564 and interest at LIBOR plus 2.5% (5.02% at December, 29, 2018). Secured by inventory, property and equipment, and accounts receivable. Matures June 2025.	$ 8,779,987	$ -
Non-Revolving Line of credit to term loan agreement with bank. Advances for investing or approved financing activities up to $30,000,000 available through January 2021. Requires monthly interest only payments at LIBOR plus 2.5% (5.02% at December 29, 2018). Principal payments commence March 2021 through the maturity date of March 2025. Secured by inventory, property and equipment, and accounts receivable.	7,874,000	-
Note payable to Klamath County, OR. One time payment of $190,000 with interest, due on demand. Remaining balance of interest only payments of $2,850 paid monthly, interest at 2%, with the remaining unpaid balance and accrued interest due at maturity. Maturity of December 2020. Secured by land	1,900,000	1,900,000
Note payable to C&S Wholesale Grocers Inc., payable in seven installments of $277,814, interest at 0%, payments to be deducted from earned annual rebates based on purchase volume, due April 2021, secured by a second position to NCB in inventory, property, and equipment.	833,441	1,111,255
Various notes payable to Toyota Financial at interest rates from 0% to 4.00%, monthly payments totaling $4,900 and maturities ending May 2021. Secured by vehicles.	86,151	113,810
Various notes payable Pacific Gas and Electric Company at 0.00% interest, monthly payments totaling $16,578 and maturities ending February 2020.	21,899	80,724

NOTE 9: **LONG-TERM DEBT (Continued)**

	2018	2017
Various notes payable to NCB at interest rates from 3.50% to 5.16% monthly payments totaling $133,866, and matures June 2024. Secured by inventory and property and equipment. Refinanced with bank in 2018.	-	9,545,238
Note payable to Chrysler Corporation at 3.69% interest, monthly payment of $463. Paid in 2018	-	7,213
Various notes payable to Ford Motor Credit at interest rates from 0.00% to 4.99%. Paid in 2018.	-	646
Total long-term debt	19,495,478	12,758,886
Less deferred financing costs	(206,539)	(116,411)
Less current portion	(1,884,259)	(2,101,599)
Long-term debt, net of current portion and deferred financing costs	$ 17,404,680	$ 10,540,876

Future maturities on long-term debt are as follows:

Fiscal Year Ending:	
December 29, 2019	$ 1,884,259
December 28, 2020	3,364,078
December 26, 2021	3,083,103
December 25, 2022	3,557,811
December 28, 2023	3,121,537
Thereafter	4,484,690
	$ 19,495,478

NOTE 10: **OPERATING LEASE COMMITMENTS**

The Company occupies all of its store facilities under operating lease agreements, which expire at various dates. Rent expenses under these leases for the year ended December 29, 2018 and December 30, 2017 were $5,215,786 and $4,931,033, respectively. Approximate annual minimum lease payments under operating leases as of December 29, 2018 are:

December 29, 2019	$ 5,225,524
December 28, 2020	4,691,086
December 26, 2021	4,351,762
December 25, 2022	4,069,089
December 28, 2023	3,693,483
Thereafter	14,329,229
	$ 36,360,173

Many of the leases have renewal options and require payment of property taxes and insurance. At December 29, 2018, some store leases provide for additional rental payments on a percentage of sales (ranging from 1% to 2%) if sales exceed a specified amount.

NOTE 11: **PROFIT-SHARING PLAN**

The Company has a profit-sharing plan for its eligible employees. The Company maintains a deferred salary arrangement under Internal Revenue Service code section 401(k). The Company's matching contribution is up to 4% of annual employee compensation based on the employees' elective deferral; additional contributions may be made at the discretion of the Board of Directors. The expense for the profit sharing plan for the periods ended December 29, 2018 and December 30, 2017 were $460,000 and $435,000, respectively.

NOTE 12: **EMPLOYEE STOCK OWNERSHIP PLAN**

On January 1, 2006 the Company adopted an Employee Stock Ownership Plan (ESOP) for its employees. Employees are eligible to participate after attaining the age of 21, completing one year of service and are credited with at least 1,000 hours of service during the year. The ESOP provides for discretionary contributions by the Company as determined by the Board of Directors, up to the maximum amount permitted under the Internal Revenue Code. Contributions must, at a minimum, be made in amounts necessary to meet the debt service obligations of the ESOP. Company stock that was in the company's 401(k) plan was transferred to the ESOP in 2006.

The Company makes annual contributions to the ESOP equal to the ESOP's debt service. The ESOP shares initially were pledged as collateral for its debt. As the debt is repaid, shares are released from collateral and allocated to plan participants, based on the proportion of debt service paid in the year. The ESOP shares pledged as collateral are reported as unearned ESOP shares in the Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the fair value of the shares.

At December 29, 2018, the ESOP held 102,800 shares of common stock of which 89,656 shares were allocated. ESOP compensation of shares allocated was $1,895,204 and $1,663,642 at December 29, 2018 and December 30, 2017, respectively. Unearned ESOP shares included 13,144 shares at an estimated fair value of $6,380,000 at December 29, 2018.

The Company has an obligation to repurchase stock held by the ESOP upon certain circumstances. At December 29, 2018, approximately 5,056 shares at an estimated fair value of $2,454,000 are subject to repurchase.

NOTE 13: **STOCK TRANSACTIONS**

During the period ended December 31, 2016, the company redeemed 120,000 shares of its common stock from Richard E. Morgan Jr. After the transaction, the company is 100% owned by the North State Grocery Inc., Employee Stock Ownership Plan. The purchase price was $250 per share with $5,000,000 down and a $25,000,000 note payable over a seven-year period at 7.00% interest. There will be a balloon payment due on June 2023 of $16,556,181. The note carries a monthly principal payment of $104,167 plus interest.

In conjunction with the stock redemption, the Company issued a common stock purchase warrant entitling Richard E. Morgan, Jr., the right to purchase up to 23,000 shares of common stock, no par value, exercised in whole or in part at any time after June 30, 2021 until the later of July 1, 2023 or payment in full of the $25,000,000 note, with an exercise price of $250 a share.

NOTE 14: **EMPLOYEE INCENTIVE PLANS**

Stock appreciation rights – In February 2017, the Company's Board of Directors approved the adoption of an incentive plan to provide grants of stock appreciation rights (SARs) to a select group of management employees. The SARs have a value equal to the fair market value of a common share of stock at the grant date. At December 29, 2018 and December 30, 2017, 1,041 and zero SARs granted under the plan to key employees were outstanding, respectively.

Under the Plan, the SARs are to be settled with a cash payment equal to the intrinsic value of the SARs as of the exercise date. For employees under the age of 65, a participant shall become one hundred percent vested upon the earliest of the participant's completion of three years of service determined on a Class Year Basis with respect to such grant award. For employees who have reached the age of 65, a participant shall become partially vested with respect to the stock appreciation units granted to the participant by a grant award in accordance with the following schedule with years of service determined on a class year basis with respect to each grant award:

Years of Service	Percent Vested
Less than 1	0%
1	33.33%
2	66.66%
At least 3	100%

All SARs are accounted for as a liability awards with compensation cost measured as of the end of each reporting period based on the then-current fair value of the SARs. Compensation costs recognized in the accompanying statements of operations related to the SARs was $29,312 and $0 for the years ended December 29, 2018 and December 30, 2017, respectively.

Phantom stock – On February 3, 2017, the Company's Board of Directors approved the adoption of an incentive plan to provide phantom stock units to a select group of management employees. The Phantom Stock Plan is an unfunded, deferred compensation plan. Participants may be granted phantom stock units as approved by the Company's Board of Directors. Phantom stock units are equivalent in value to one share of company common stock. Participants vest in the appreciation of the value of the stock over a five year period, unless shorter vesting is approved by the Board of Directors. In 2017, the Company granted 960 phantom stock units to key employees. No phantom stock units were granted in 2018.

For participants who have obtained the age of 65, a participant shall become partially vested with respect to the phantom stock units granted to the participant by a grant award in accordance with the following schedule with years of service determined on a class year basis with respect to each grant award.

Years of Service	Percent Vested
Less than 1	0%
1	20%
2	40%
3	60%
4	80%
At least 5	100%

This award is accounted for as a liability award with compensation cost measured as of the end of each reporting period based on the market value of the Company's stock. Compensation costs recognized in the accompanying statements of operations related to phantom stock was $118,514 and $0 for the years ended December 29, 2018 and December 30, 2017, respectively.

NOTE 15: **RELATED PARTY TRANSACTIONS**

The Company leases stores and office facilities from a related party. Rent expense for these facilities for the years ended December 29, 2018 and December 30, 2017 were $835,263 and $897,461, respectively.

The Company has an outstanding loans with related parties. Interest expense paid to related parties for the years ended December 29, 2018 and December 30, 2017 were $1,629,464 and $1,738,910, respectively.

NOTE 16: **CONCENTRATIONS**

Financial instruments, which potentially subject the Company to credit risk consists of cash and receivables. The Company's cash balances are with reputable banks and periodically exceed insured limits.

Accounts payable and purchases – There are no vendors whose individual balance represents 10% or more of accounts payable at December 29, 2018. Two vendors represented approximately 25% of accounts payable as of December 30, 2017. For the periods ended December 29, 2018 and December 30, 2017 the majority of purchases are from one vendor.

NOTE 17: **BUSINESS COMBINATIONS**

The Company acquired the assets of Tops Industries and R&G, LLC. (together referred to as Tops) with an economic effective date of January 30, 2018.

The Company acquired real estate and assets from Lira's Supermarket with an economic effective date of April 9, 2018.

The following table summarizes the consideration paid for the companies and the amounts of the assets acquired, recognized at fair value, at the transaction dates:

	Lira's	Tops	Total
Total cash consideration	$ 2,335,723	$ 6,096,652	$ 8,432,375
Recognized assets acquired:			
Cash	$ 9,763	$ 9,345	$ 19,108
Inventory	241,282	987,307	1,228,589
Liquor license	25,000	25,000	50,000
Property and equipment	55,000	175,847	230,847
Investment in real estate	2,000,000	-	2,000,000
Goodwill	4,678	4,899,153	4,903,831
Total recognized assets acquired	$ 2,335,723	$ 6,096,652	$ 8,432,375

NOTE 18: **FAIR VALUE MEASUREMENTS**

The Company uses a three-tier hierarchy that prioritizes the inputs to valuation techniques used for measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are quoted market prices in active markets for identical assets or liabilities.

Level 2 –Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 –Inputs that are unobservable and not corroborated by market data.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 29, 2018.

Phantom stock obligations: Fair value is determined based on an annual valuation of the Company's common stock which is prepared by an independent appraiser. The Trustees of the ESOP Plan approve the fair value based on the annual valuation.

Stock appreciation rights: Fair value is determined based on the change in the fair value of the Company's common stock from the date the stock appreciation rights were issued to the most current fair value of the Company's common stock. Fair value of the Company's common stock is determined by an annual valuation prepared by an independent appraiser. The Trustees of the ESOP Plan approve the fair value based on the annual valuation.

Warrant liability: Fair value is determined using a Black-Scholes option pricing model. The model requires various assumptions as inputs including expected volatility of the stock price. Fair value of the Company's common stock is determined by an annual valuation prepared by an independent appraiser. The Trustees of the ESOP Plan approve the fair value based on the annual valuation.

The following table sets forth by level, within the fair value hierarchy, the Company's liabilities that were accounted for at fair value on a recurring basis, using Level 3 inputs, at December 29, 2018 and December 30, 2017:

	2018	2017
Phantom stock obligation	$ 118,514	$ -
Stock appreciation rights obligation	$ 29,312	$ -
Warrant liability	$ 6,220,219	$ 3,691,731

NOTE 18: **FAIR VALUE MEASUREMENTS (Continued)**

The following table discloses the summary of changes in fair value of liabilities valued using Level 3 inputs for the years ended December 29, 2018 and December 30, 2017:

	Phantom Stock Obligation	Stock Appreciation Rights	Warrant Liability
Beginning balance, January 1, 2017	$ -	$ -	$ 2,193,653
Adjustment to fair value	-	-	1,498,078
Ending balance, December 30, 2017	-	-	3,691,731
Grants, vesting, net	86,762	29,312	-
Adjustment to fair value	31,752	-	2,528,488
Ending balance, December 29, 2018	$ 118,514	$ 29,312	$ 6,220,219

NOTE 19: **BUSINESS INTERRUPTION AND INSURANCE RECOVERY**

During the year ended December 29, 2018, the Company recorded insurance proceeds of $1,798,980 from the settlement of a business interruption claim that covered the disruption of the Company's operations and damage of the Company's inventory as a result of the Camp Fire on their Paradise and Magalia locations during 2018. The insurance settlement reimbursed the Company for lost revenues and as a result of this business interruption. A portion of the insurance proceeds were outstanding at December 29, 2018 and are recorded in Other Receivables on the Balance Sheet. Insurance proceeds of $1,165,297 were recorded to cost of sales to offset the related inventory write-off and $633,683 were recorded as miscellaneous income on the statement of income for the year then ended.

NOTE 20: **SUBSEQUENT EVENTS**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through May 31, 2019, the date the financial statements were available to be issued, and management has determined that no subsequent events have occurred that should be disclosed.

SUPPLEMENTAL INFORMATION

NORTH STATE GROCERY, INC.

SCHEDULES OF GROSS PROFIT
For The Years Ended December 29, 2018 and December 30, 2017

	2018		2017	
	Amount	Percent	Amount	Percent
Sales, Net				
Grocery	$ 68,871,226	29.6%	$ 62,352,317	30.2%
Grocery DSD	32,236,091	13.9%	28,715,556	13.9%
Liquor	24,419,732	10.5%	21,155,408	10.3%
Produce, random weight	19,156,965	8.2%	17,370,762	8.4%
Meat/Deli	18,420,054	7.9%	16,193,772	7.9%
Meat	17,982,809	7.7%	16,187,274	7.8%
Bakery	18,070,995	7.8%	15,262,448	7.4%
Fuel	11,249,716	4.8%	9,977,753	4.8%
Produce, set weight	9,321,837	4.0%	7,727,899	3.7%
General merchandise	8,071,158	3.5%	7,283,242	3.5%
Bakery/Deli	5,575,097	2.4%	4,660,978	2.3%
Discounts	(667,256)	-0.3%	(642,673)	-0.3%
Total sales, net	232,708,424	100.0%	206,244,736	100.0%
Cost of Sales				
Grocery	$ 50,645,554	21.8%	$ 45,667,546	22.1%
Grocery DSD	23,263,347	10.0%	21,038,434	10.2%
Liquor	19,039,218	8.2%	16,456,886	8.0%
Produce, random weight	12,648,257	5.4%	12,411,163	6.0%
Meat/Deli	12,570,901	5.4%	11,153,215	5.4%
Meat	12,571,690	5.4%	11,423,063	5.5%
Bakery	10,232,510	4.4%	8,936,511	4.3%
Fuel	10,098,801	4.3%	8,886,187	4.3%
Produce, set weight	5,893,097	2.5%	5,209,389	2.5%
General merchandise	5,524,260	2.4%	4,978,281	2.4%
Bakery/Deli	3,459,523	1.5%	3,023,271	1.5%
Total cost of sales	165,947,158	71.3%	149,183,946	72.3%
Gross Profit				
Grocery	$ 18,225,672	26.5%	$ 16,684,771	26.8%
Grocery DSD	8,972,744	27.8%	7,677,122	26.7%
Liquor	5,380,514	22.0%	4,698,522	22.2%
Produce, random weight	6,508,708	34.0%	4,959,599	28.6%
Meat/Deli	5,849,153	31.8%	5,040,557	31.1%
Meat	5,411,119	30.1%	4,764,211	29.4%
Bakery	7,838,485	43.4%	6,325,937	41.4%
Fuel	1,150,915	10.2%	1,091,566	10.9%
Produce, set weight	3,428,740	36.8%	2,518,510	32.6%
General merchandise	2,546,898	31.6%	2,304,961	31.6%
Bakery/Deli	2,115,574	37.9%	1,637,707	35.1%
Discounts	(667,256)	100.0%	(642,673)	100.0%
Total gross profit	$ 66,761,266	28.7%	$ 57,060,790	27.7%

NORTH STATE GROCERY, INC.

SCHEDULES OF OPERATING EXPENSES
For The Years Ended December 29, 2018 and December 30, 2017

	2018		2017	
	Amount	Percent	Amount	Percent
Operating Expenses				
Wages	$ 25,258,799	10.9%	$ 21,788,157	10.6%
Employee benefits	6,395,750	2.7%	4,463,719	2.2%
Occupancy costs	6,278,430	2.7%	5,295,812	2.6%
Utilities	3,604,181	1.5%	3,390,754	1.6%
Bank charges	2,567,473	1.1%	2,432,155	1.2%
Depreciation	2,559,029	1.1%	2,273,468	1.1%
Payroll taxes	2,345,909	1.0%	2,123,548	1.0%
Operating supplies	1,670,516	0.7%	1,438,782	0.7%
Repairs and maintenance	1,350,012	0.6%	1,022,985	0.5%
Worker's compensation	1,046,026	0.4%	1,093,459	0.5%
Training	972,051	0.4%	689,671	0.3%
Dues and subscriptions	882,966	0.4%	704,855	0.3%
Promotions	871,322	0.4%	815,015	0.4%
Goodwill and deferred financing costs	704,738	0.3%	25,042	0.0%
Legal and accounting	612,174	0.3%	1,096,061	0.5%
Insurance	564,912	0.2%	482,029	0.2%
Janitorial and laundry	388,610	0.2%	283,035	0.1%
Travel	388,191	0.2%	234,772	0.1%
Taxes and licenses	323,775	0.1%	169,637	0.1%
Telephone	276,176	0.1%	244,018	0.1%
Advertising	197,125	0.1%	180,302	0.1%
Office supplies	144,956	0.1%	105,625	0.1%
Loss on disposition of assets	122,035	0.1%	122,037	0.1%
Auto expenses	112,903	0.0%	107,726	0.1%
Cash shortage	66,389	0.0%	84,469	0.0%
Other contract services	47,374	0.0%	127,057	0.1%
Equipment rent	29,167	0.0%	34,753	0.0%
Security	7,512	0.0%	3,324	0.0%
Bad debts	3,494	0.0%	19,567	0.0%
Penalties	(764)	0.0%	(3,166)	0.0%
Settlements	(5,046)	0.0%	-	0.0%
Total operating expenses	$ 59,786,185	25.7%	$ 50,848,668	24.7%