HARBORSIDE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND OPERATING PERFORMANCE

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

AUGUST 31, 2020

The following Management's Discussion and Analysis ("MD&A") constitutes management's assessment of the factors that affected the financial and operating performance of Harborside Inc. ("Harborside", "We" or the "Company") for the three and six months ended June 30, 2020.

This MD&A should be read in conjunction with the audited consolidated financial statements of Harborside for the year ended December 31, 2019, and the unaudited condensed interim consolidated financial statements of Harborside for the three and six months ended June 30, 2020 and 2019 (the "Q2 2020 Interim Financial Statements"). The Q2 2020 Interim Financial Statements and the financial information contained in this MD&A are prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting, based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. In preparing this MD&A, management has taken into account information available up to August 31, 2020, and all figures are expressed in United States Dollars ("$" or "USD") or in Canadian Dollars ("C$" or "CAD") unless stated otherwise.

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains certain forward-looking information and statements relating, but not limited to, the information and statements under the headings "Outlook and Growth Strategy", "Projected Revenue Guidance", and "Outlook and Impact of COVID-19", "Working Capital and Liquidity Outlook", statements and information regarding 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 "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" 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.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the risks and uncertainties described under the heading "Risk Factors", the expectations and assumptions that the Company's strategies are based on; the impact of the coronavirus outbreak ("COVID-19") pandemic to the Company's strategies and operations; the unfavorable tax treatment of cannabis businesses and the disallowance of certain tax deductions to the Company; securities class action and other litigation risks; the consolidation and expansion of Harborside's retail footprint in the San Francisco Bay Area (the "Bay Area"), elsewhere within California or in other geographic locations; the scale and improvement of the Company's cannabis cultivation, production and/or manufacturing capabilities; expansion of the Company's wholesale and business-to-business ("B2B") sales of its cannabis products; launching of new branded products, the success in establishing the Company's position as one of California's premier vertically integrated cannabis companies in the United States ("US"); the Company's ability to manage the disruptions and volatility in the global capital markets due to COVID-19; and the Company's ability to meet its working capital needs, including the cost and potential impact of complying with existing and proposed laws and regulations. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements.

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.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this MD&A are made as of the date hereof and are presented for the purpose of assisting investors and others in understanding Harborside's financial position and results of operations, as well as its

objectives and strategic priorities, and may not be appropriate for other purposes. The Company undertakes no obligation to publicly update or revise any forward-looking statements or any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

Use of Non-IFRS Financial Measures

This MD&A contains references to "Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization" ("Adjusted EBITDA"), "Adjusted Gross Profit" and "Adjusted Gross Margin", which are non-IFRS financial measures.

Adjusted EBITDA is a measure of the Company's overall financial performance and is used as an alternative to earnings or income in some circumstances. Adjusted EBITDA is essentially net income (loss) with interest, taxes, depreciation and amortization, non-cash adjustments and other unusual items added back. Adjusted EBITDA can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. Adjusted EBITDA is often used in valuation ratios and can be compared to enterprise value and revenue. The term Adjusted EBITDA does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted Gross Profit and Adjusted Gross Margin exclude the fair value adjustments for the Company's biological assets. Management believes these measures provide useful information as they represent the gross profit based on the Company's cost to produce inventories sold while removing the fair value measurements, which are tied to changing inventory levels, as required by IFRS.

There are no comparable IFRS financial measures presented in Harborside's Q2 2020 Interim Financial Statements. Reconciliations of the supplemental non-IFRS financial measures are presented in the MD&A. The Company believes such measures provide information which is useful to shareholders and investors in understanding its performance and which may assist in the evaluation of the Company's business relative to that of its peers.

Description of Business

Harborside, through its affiliated entities, owns and operates three retail dispensaries in California, another retail dispensary in Oregon (the "Eugene Dispensary") and a cultivation facility in Salinas, California (the "Farm" or the "Salinas Farm"). The Company also operates a fourth dispensary in California under a management services agreement ("MSA"). The Company is focused on building and maintaining its position as one of California's premier vertically integrated cannabis companies.

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

On May 30, 2019, FLRish Inc. ("FLRish") and Lineage Grow Company Ltd. ("Lineage") completed a reverse takeover transaction (the "RTO Transaction"), providing for the acquisition by Lineage of all of the issued and outstanding common shares of FLRish, by way of a "three-cornered" merger, whereby FLRish became a wholly owned subsidiary of Lineage. Concurrent with the closing of the RTO Transaction, Lineage consolidated its common shares on the basis of approximately 41.82 common shares into one new common share (the "Consolidation"), which were then reclassified as subordinate voting shares ("SVS"). A new class of multiple voting shares (the "MVS") of the resulting issuer was also created. The RTO Transaction resulted in the former shareholders of FLRish holding a majority of the outstanding share capital and assuming control of Lineage, and Lineage changed its name to Harborside Inc. As a result of the RTO Transaction, the comparative information presented on a consolidated basis in the Company's Q2 2020 Interim Financial Statements and in this MD&A are those of FLRish.

The Company's SVS are listed on the Canadian Securities Exchange (the "CSE") under the trading symbol "HBOR" and began trading effective June 10, 2019.

The address of the Company's registered office in Canada is 181 Bay Street, Suite 1800, Toronto, Ontario M5J 2T9, and the Company's head office in the US is located at 2100 Embarcadero, Suite 202, Oakland, California, 94606.

Retail Dispensaries

Harborside's retail dispensaries serve both adult-use and medical cannabis customers. The Company's dispensary footprint includes Harborside branded dispensaries located in Oakland, San Jose, San Leandro and Desert Hot Springs, California. In addition, Harborside operates the Eugene Dispensary under the Terpene Station brand, in Eugene, Oregon. The Harborside dispensary in Desert Hot Springs, California ("Harborside Desert Hot Springs") is operated under an MSA with Accucanna, LLC ("Accucanna") and includes the only drive-thru cannabis dispensary in southern California. Taken together, Harborside's retail dispensaries have over 15 years of operating history, with more than $325 million of historical sales (including retail gross revenue of more than $38 million for the year ended December 31, 2019 ("Fiscal 2019"), and in excess of 270,000 patients and customers served. Harborside's Oakland dispensary received one of the first six commercial cannabis licenses issued in the US and is one of the largest retail cannabis locations in the world.

Cultivation and Wholesale

Harborside operates a cultivation facility located in Salinas, California. The Salinas Farm is approximately forty-seven (47) acres in size with five active greenhouses containing approximately 200,000 total square feet ("sq. ft.") of licensed cannabis cultivation, including one greenhouse which features Dutch Venlo technologies (the "Venlo Greenhouse").

Background

On January 7, 2019, pursuant to a series of agreements (the "Merger Option Agreements") previously entered between FLRish, Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness ("SJW"), FLRish gained control of PMACC. PMACC operates retail dispensaries in Oakland and San Jose (the "Harborside Dispensaries"), as well as the Salinas Farm. The Merger Option Agreements provided FLRish with the right (the "Merger Options") to purchase 100% of the equity interests of PMACC and SJW. The Company determined that on January 7, 2019, the date the Merger Option Agreements were executed, the Company obtained de facto control of PMACC and SJW (see "Acquisitions" for more details).

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

On February 8, 2019, Lineage and FLRish entered into a merger agreement, whereby the RTO Transaction was structured as a three-cornered merger (the "Merger Agreement"). Pursuant to the Merger Agreement, which was amended on April 17, 2019, FLRish agreed to, among other things, merge with Lineage Merger Sub Inc., a wholly owned subsidiary of Lineage, to form a merged corporation.

On May 30, 2019, Lineage and FLRish completed the RTO Transaction, whereby FLRish became a wholly owned subsidiary of Lineage. Pursuant to the terms of the Merger Agreement, and concurrent with the closing of the RTO Transaction, Lineage consolidated its common shares on the basis of approximately 41.82 common shares into one new common share, which were then reclassified post-Consolidation as SVS; created a new class of MVS; and changed its name to Harborside Inc. Holders of shares of FLRish received either MVS or SVS (or a combination thereof), for each share of FLRish outstanding immediately prior to completion of the RTO Transaction (see "Acquisitions" for more details).

Recent Developments

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

On June 8, 2020, the Ontario Securities Commission (the "OSC") issued a cease trade order (the "CTO") which prevents trading in the Company's SVS until after it has filed: (i) the amended and restated financial statements of FLRish for the years ended December 31, 2017 and 2018 (the "Restated 2018 Financials"); (ii) the annual financial statements and related MD&A of the Company for the year ended December 31, 2019 (together with the Restated 2018 Financials, the "Outstanding Annual Filings"); and (iii) the interim financial report and related MD&A of the Company for the period ended March 31, 2020 (the "Q1 2020 Filings").

On August 10, 2020, the Company filed the Outstanding Annual Filings, and on August 25, 2020, the Company also filed the Q1 2020 Filings. The Company has applied to the OSC to have the CTO revoked. The Company expects trading to resume on the CSE shortly after the revocation of the CTO. While the Company has made the application, there is no assurance that the OSC will grant the revocation order.

Please see "Subsequent Events" for further Recent Developments.

Outlook and Growth Strategy[1]

The Company is a vertically integrated, fully licensed cannabis company with its business consisting of three primary segments: (i) retail dispensaries, (ii) cultivation and processing, and (iii) wholesale sales (including branded product sales). The Company also provides management advisory and administrative services.

Regarding dispensaries, the Company:

- Owns three dispensaries in California that operate under the Harborside brand, located in Oakland, San Jose and San Leandro.
- Owns one dispensary in Oregon that operates under the Terpene Station brand, located in Eugene; and
- Manages one dispensary in California that operates under the Harborside brand, located in Desert Hot Springs.

The Company also operates the Salinas Farm, which is approximately forty-seven (47) acres in overall size and contains five active greenhouses with a combined cultivation area of approximately 200,000 sq. ft. under roof, including the Venlo Greenhouse. In addition to the greenhouses, there are separate buildings on site for drying and processing, inventory and equipment storage, and management offices. The Salinas Farm enables Harborside to produce a wide array of cannabis products offered at varying price points, meeting the ever diverse and changing buying habits of retail customers along with other dispensaries, manufacturers, and distributors. The Venlo Greenhouse at the Salinas Farm provides approximately one acre of growing space in a facility that is equipped with solid glass paneling, radiant heated floors, computerized environmental and fertigation systems along with a customizable automated LED lighting system. All premium flower grown in this facility is cultivated using sustainable practices and adheres to California's rigorous horticulture and harvesting standards.

As the regulated California market continues to develop, management sees strong potential growth in well-known retail platforms, as well as branded products that are trusted by consumers. In addition, management expects continued B2B demand for high quality bulk wholesale flower as well as consumer packaged branded products and product lines focused on specific consumer demographics. The Company's "Harborside", "Harborside Farms Reserve" and "KEY" brands are well positioned for growth in the area of branded products, including those products sold at wholesale to other retailers and distributors throughout California.

Strategies

The business objectives that the Company intends to accomplish in the forthcoming 12-month period are as follows:

- Expand its California retail footprint, particularly in the Bay and Northern California areas.
- Continue to increase sell-through of in-house brands at Company-controlled retail stores.
- Improve its cannabis production/manufacturing capabilities.
- Expand wholesale and B2B sales of its cannabis products; and
- Launch at least two new in-house brands.

[1] This section contains forward looking information and is based on a number of risks and assumptions, including those described under "Assumptions and Expectations". See "Cautionary Note Regarding Forward-Looking Statements".

In addition to the above objectives, the Company expects to complete certain strategic acquisitions that are consistent with its strategies of expanding its California presence.

Assumptions and expectations

The Company's strategies are founded on its core market assumptions and expectations, including:

- Led by states in the US, legalization will continue to contribute to the industry's growth momentum, and California will represent the largest state market.
- Adult-use and medical cannabis consumption will increase as branded and manufactured products become increasingly popular and cannabis use becomes more widely acceptable and prevalent.
- Cultivation and sales of non-branded bulk cannabis will become commoditized.
- Trusted brands and diversified manufactured products offering value to a range of consumer demographics will win the market; and
- California will provide an efficient base to service an interstate commerce market if and when it opens up.

In management's view, due to a patchwork of differing laws and the inability to ship products across state lines, the cannabis industry has historically proven to be difficult to scale across multiple states. Given the growth trajectory of the California cannabis market in comparison to other US state markets and the difficulty of operating in multiple states, Harborside intends to focus on a California-centric business model to consolidate and increase its market share in California, with an initial focus on the Bay Area where the Company's dispensaries have already earned considerable market share.

While the Company has invested significantly to scale its production operations, management believes that unbranded wholesale cannabis flower sales prices will eventually be significantly impacted by commoditization as production scales up in California. As such, scale alone will not be sufficient to mitigate this risk and developing trusted branded products will be necessary to retain customer loyalty, grow market share, and protect operating margins as the wholesale price of unbranded flower decreases.

For this reason, the Company will consider investment opportunities to enhance its branded product offerings. The strategy will likely focus on the wellness aspects of the products, and also target cost-conscious market demographics by emphasizing value.

In addition, Harborside recognizes that consumer purchasing habits are trending in favor of manufactured products over flower and expects this trend to continue as new product categories are created and existing manufactured products are improved. Given this trend of increasing demand for manufactured and branded products, the Company will prioritize development of manufactured products under its own brands.

Strategic acquisition

Harborside is actively pursuing growth opportunities to expand its portfolio in the cannabis industry in California. The following is a summary of the acquisition target currently in its pipeline:

<u>Altai</u>

On May 30, 2019, as part of the RTO Transaction, the Company acquired from Lineage advances previously made towards a purchase by Lineage of a 100% interest in Altai Partners, LLC ("Altai"), a limited liability company operating out of California. These advances were made pursuant to a binding letter of intent ("LOI") in relation to a proposed acquisition that was entered into by Lineage on March 28, 2018. Altai had an agreement in place, dated March 15, 2018, to acquire a 45% interest in Lucrum Enterprises Inc., d/b/a LUX Cannabis Dispensary ("LUX"), a licensed dispensary operating in San Jose (the "LUX Acquisition"). On March 28, 2018, Altai subsequently entered into an additional agreement to acquire the remaining 55% ownership interest in LUX.

LUX holds four licenses in California including retail, cultivation, extraction, and delivery. Currently, cannabis business activity conducted by LUX is limited to the retailing of cannabis products. LUX's cannabis retail operations are conducted in a 3,700 sq. ft. retail space located in southeast San Jose. The LUX dispensary acquires cannabis products

including cannabis flower, vape pens, oils, extracts, edibles and pre-rolls from wholesale producers via distribution partners and markets those products to recreational and medical cannabis consumers while maintaining compliance with the rules set forth by the Bureau of Cannabis Control ("BCC"), California Department of Public Health ("CDPH") and California Department of Food and Agriculture ("CDFA") and all other applicable state and local laws, regulations, ordinances, and other requirements.

The LUX Acquisition aligns with the Company's strategy through acquisitions, and it provides Harborside an opportunity to further expand its footprint in the growing California retail market. The Company continues to work towards a definitive agreement with LUX and intends to complete the acquisition as quickly as possible, subject to satisfaction of closing conditions. Though the Company hopes to close the LUX Acquisition, there is currently uncertainty with respect to the ultimate outcome and timing.

Projected Revenue Guidance

On August 10, 2020 and on August 26, 2020, the Company released certain forward-looking financial projections or targets for the second quarter of 2020 ("Q2 2020"). Those projections had been reflected in news releases issued by the Company on August 10, 2020 and August 26, 2020, respectively, which are available on SEDAR under the Company's profile. Revenue for Q2 2020 increased approximately 28% year-over-year to approximately $16.0 million, driven primarily by total wholesale revenues for second quarter 2020 of 244% of the total wholesale revenues in Q2 2019, resulting in an approximately 144% growth rate in wholesale year-over-year, and a 5.3% growth rate in retail revenue year-over-year. The growth in wholesale revenues was primarily due to improved harvest yields and flower quality, which allowed the Company to bring more product to market and sell it for a higher average price. The growth in retail revenue reflects the Company's enhanced merchandising and pricing initiatives which have resulted in, amongst other things, improved product mix, selected pricing changes and higher sell-through of internally-produced products (Harborside-branded products represented between seven and nine of the 20 top-selling SKUs at Harborside stores in each month of the quarter).

In developing the financial guidance set forth above, the Company formed assumptions and relied on the following factors and considerations:

- Targets are based on the Company's historical results including its year-to-date consolidated results of operations.
- Targets are subject to improved flower yields and additional cultivation cost improvement plans anticipated to be realized during 2020.
- Both retail and wholesale revenue sustainability and growth depend on a variety of factors, including among other things, location, competition, legal and regulatory requirements. Prices are projected forward at recently realized wholesale and retail prices.
- Cost of goods sold, before taking into account the impact of fair value changes in biological assets (which are non-cash in nature, and, accordingly, are excluded from calculations of Adjusted EBITDA), has been projected based on estimated costs of production and capacity available from a vertically integrated supply chain. Cost of goods sold relating to retail inventory purchased from third-parties has been projected in line with historical levels, which is approximately 50%. Across its retail and wholesale businesses, the Company assumes blended adjusted gross margin to be approximately 38%. However, gross margin can be influenced by a number of factors including, among other things, the cost and yields of cannabis cultivation and production, wholesale cannabis prices, and other relevant factors.

These targets, and the related assumptions, involve known and unknown risks and uncertainties which may cause actual results to differ materially. While the Company believes there is a reasonable basis for these targets, such targets may not be met, especially in light of COVID-19. The COVID-19 pandemic also contributes to the inability of the Company to produce additional targets for the remainder of 2020. See "Outlook and Impact of COVID-19" below for further details. These targets represent forward looking information. Actual results may vary and differ materially from the targets.

Outlook and Impact of COVID-19[2]

At the time of issuance of this MD&A, the World Health Organization (the "WHO") had declared COVID-19 to be a pandemic, which has had far-reaching impacts on every business and every individual globally. For the time being, and until economies stabilize, Harborside has shifted its strategic approach and the manner in which it operates its business to continue providing affordable and high quality products to its customers, and ensure that its workplace and stores have appropriate measures put in place to limit social interactions and enforce social distancing measures. At the same time, the Company has also taken steps to alter its marketing methods, conserve cash, and adjust its overall strategic direction to preserve the health of its business.

On March 25, 2020, the Company announced the initiatives it had put forth as a response to the impact of the outbreak of the COVID-19 pandemic. Such initiatives aim to allow the Company to continue offering affordable and high quality products in a safe environment, with additional measures put in place to allow its customers to access its products while limiting social interactions, and enforcing social distancing measures throughout its retail stores. These initiatives have allowed the Company to operate mostly uninterrupted and to implement its business continuity plan. Some of the measures that Harborside initiated included: (i) increasing curbside pick-up and/or drive-thru options at all of its retail locations; (ii) expanding home delivery services to customers located in Oakland, San Jose, and the Greater East Bay and Peninsula areas; and (iii) updating its safety and sanitation protocols in-store. The Company also emphasized its continued efforts to align labor costs with customer demand, cut all non-essential operational expenses, hold off on any non-accretive operational and capital projects, and suspended all non-essential supplier contracts.

As of the issuance of this report, the Company's operations have not been significantly impacted as cannabis has been deemed an essential service in the states of California and Oregon since March 2020. Additional measures the Company has taken in response to COVID-19 include the following:

- Lobbied state and local municipalities to continue to operate and provide essential services, including receiving temporary relief and support from the BCC to allow for curbside pickup at the Harborside Dispensaries and Harborside San Leandro (medical only).
- Continue to offer increased drive-thru services at Harborside Desert Hot Springs.
- Added additional resources to its home delivery services, which are available to customers in Oakland, San Jose and the Greater East Bay and Peninsula areas at shopharborside.com.
- Limiting customer foot traffic inside its stores.
- Maintaining social distancing requirements of at least six feet when customers are waiting in line or consulting with associates.
- Cleaning and disinfecting all frequently touched surfaces including doorknobs, countertops, ATM machines, debit terminals, and all other frequently used workplaces.
- Providing hand sanitizer throughout the stores and operating facilities, along with personal protective equipment such as gloves and masks.
- Encouraging staff to take temperatures regularly to ensure continued good health; and
- Where possible, employees are being asked to work from home.

Harborside is committed to the important role it plays in providing communities with essential cannabis products during this critical time, and to doing its part to slow the spread of COVID-19. Since the Governors of the states of Oregon and California have deemed cannabis to be an "essential" service, access to cannabis products from Harborside and other cannabis operators throughout both states has been protected. Harborside's retail store locations and production facilities remain fully operational and the Company has seen record weekly revenues and average basket sizes across its locations, as well as significant improvement in its profitability as its ongoing business transformation initiatives continue to adapt to the changing environment.

While the Company ended Q2 2020 with a cash and cash equivalents balance of more than $13.6 million, the Company must prudently manage its cash and maintain its liquidity amidst the uncertainty during the COVID-19 pandemic. The

[2] This section contains forward looking information and is based on a number of risks and assumptions, including those described under "Assumptions and Expectations". See "Cautionary Note Regarding Forward Looking Statements".

Company's core focus will be on implementing its business continuity plan and closely monitoring the developments of COVID-19 to focus its resources on navigating and adapting to the situation as it unfolds. Ensuring that customers continue to have safe and uninterrupted access to its products, as well as maintaining high quality growth, cultivation, production, and manufacturing capabilities, will be critical to the Company's success. Cost reductions in salaries, marketing and other administrative functions have been implemented and capital expenditure programs have been postponed. Management believes that the Company will be able to maintain a positive cash flow balance through 2021. Maintaining liquidity through the pandemic and continuing with its business continuity plan should place the Company in a very strong competitive position once the COVID-19 pandemic ends.

Canadian Companies with U.S. Marijuana-Related Assets

On February 8, 2018, the Canadian Securities Administrators ("CSA") published Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* (the "Staff Notice"), which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the US as permitted within a particular state's regulatory framework. All issuers with US cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents.

Such disclosure includes, but is not limited to, (i) a description of the nature of a reporting issuer's involvement in the US marijuana industry; (ii) an explanation that marijuana is illegal under US federal law and that the US enforcement approach is subject to change; (iii) a statement about whether and how the reporting issuer's US marijuana-related activities are conducted in a manner consistent with US federal enforcement priorities; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the US marijuana industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice.

At this time, the Company's involvement in the US cannabis industry is "direct" through its operations from the Harborside dispensaries in Oakland, San Jose and San Leandro, Harborside Desert Hot Springs, the Eugene Dispensary in Oregon, and the Salinas Farm. As a result of the Company's operations, the Company is therefore subject to the requirements of the Staff Notice and accordingly provides the following disclosures:

Compliance with applicable state laws in the US

The Company regularly seeks and receives outside legal advice regarding compliance with applicable state regulatory frameworks, and exposure and implications arising from US federal law, in the states where its retail dispensaries and wholesale cultivation facilities conduct operations. As of the date of this MD&A, the Company has not received any notices of violation, denial or non-compliance from any US authorities imposing any material restriction of operations or fines.

Nature of operations with US cannabis-related activities

Retail Dispensaries

The Company operates four retail dispensaries in California, located in Oakland, San Jose, San Leandro and Desert Hot Springs. In addition, Harborside owns and operates the Eugene Dispensary under the Terpene Station brand, located in Eugene, Oregon. Harborside's retail dispensaries serve both adult-use and medical cannabis customers. Taken together, Harborside's retail dispensaries have over 15 years of operating history, with more than $325 million of historical sales (including gross revenue of more than $49 million in 2019), and in excess of 270,000 patients and customers served.

Harborside's Oakland dispensary was founded in 2006 and is one of the largest retail cannabis locations in the world, having received one of the first six commercial cannabis licenses issued in the US. The Harborside dispensary in Desert Hot Springs is operated under an MSA with Accucanna and includes the only drive-thru cannabis dispensary in southern California.

The Company also owns the "Harborside", "Harborside Farms", "Harborside Farms Reserve" and "KEY" brands. California is the largest adult-use cannabis market in the US.

Cultivation and Wholesale

Harborside operates a cultivation facility located in Salinas, California, which is approximately forty-seven (47) acres in size and contains five active greenhouses that provide approximately 200,000 total sq. ft. of cultivation space, including one greenhouse which features Dutch Venlo technologies. In addition to the greenhouses, there are separate buildings onsite for drying and processing, inventory and equipment storage and management offices. The cultivation facility enables the Company to produce a wide array of cannabis products that can be offered at varying price points, meeting the ever diverse and changing habits of customers and other dispensaries, manufacturers, and distributors.

Compliance

The Company's compliance program includes in-house Quality and Compliance ("QC") team dedicated to ensuring compliance with applicable US state and federal law on an ongoing basis. The QC team is tasked with carrying out various compliance-related tasks, including ongoing review of Company's policies, procedures and controls to ensure alignment with local and state rules and regulations; ongoing training on state rules and regulations for all staff; monthly internal audits of processes and procedures; and facility inspections to ensure compliance with applicable local and state rules and regulations. The Company's QC team monitors state and federal law through routine review of regulatory websites, communication with regulatory authorities, and subscription to numerous industry resources that are focused on legal and compliance related issues. As rules or regulations are adopted, the QC team updates policies and procedures as appropriate and disseminates written guidance to all Harborside entities.

The Company also utilizes outside legal counsel regarding compliance with applicable state regulatory frameworks and developments in US federal law in the states where its retail dispensaries conduct operations. As of the date of this MD&A, the Company has not received any notices of violation, denial or non-compliance from any US authorities imposing any material restriction of operations or fines.

Regulatory Overview

US federal law

While cannabis ("marijuana") and cannabis-infused products are legal under the laws of several US states (with vastly differing restrictions), presently the concept of "medical", "retail" or "adult-use" cannabis does not exist under US federal law. The US Federal Controlled Substances Act ("FCSA") classifies marijuana as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision.

The US Supreme Court has ruled in a number of cases that the federal government does not violate the federal constitution by regulating and criminalizing cannabis, even for medical purposes. Therefore, federal law criminalizing the use of cannabis pre-empts state laws that legalizes its use for medicinal and adult-use purposes.

The US Department of Justice (the "DOJ") has issued official guidance regarding cannabis enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use cannabis. In each instance, the DOJ has stated that it is committed to the enforcement of federal laws and regulations related to cannabis. However, the DOJ has also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the DOJ has rescinded all federal enforcement guidance specific to cannabis (including the Cole memo, discussed below) and has instead directed that federal prosecutors should follow the "Principles of Federal Prosecution" originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the US Attorney's Manual. This direction has created broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use cannabis businesses, even if they are not engaged in cannabis-related conduct enumerated by the Cole Memo.

Prior to 2018 and in the Cole Memo (issued on August 29, 2013), the DOJ acknowledged that certain US states had enacted laws relating to the use of cannabis and outlined the US federal government's enforcement priorities with respect to cannabis notwithstanding the fact that certain states have legalized or decriminalized the use, sale, and manufacture of cannabis. The Cole Memo was addressed to "All United States Attorneys" from James M. Cole, Deputy Attorney General of the US, indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which are to prevent:

(1) Distribution of cannabis to minors.
(2) Criminal enterprises, gangs, and cartels from receiving revenue from the sale of cannabis.
(3) Transfer of cannabis from states where it is legal to states where it is illegal.
(4) Cannabis activity from being a pretext for trafficking of other illegal drugs or illegal activity.
(5) Violence or use of firearms in cannabis cultivation and distribution.
(6) Drugged driving and adverse public health consequences from cannabis use.
(7) Growth of cannabis on federal lands; and
(8) Cannabis possession or use on federal property.

On November 14, 2017, Jeff Sessions, then the US Attorney General, made a comment before the House Judiciary Committee about prosecutorial forbearance regarding state-licensed cannabis businesses. In his statement, Mr. Sessions stated that the US federal government's current policy is the same fundamentally as the Holder-Lynch policy, whereby the states may legalize cannabis for its law enforcement purposes, but it remains illegal with regard to federal purposes.

On January 4, 2018, the Cole Memo was rescinded by a one-page memo signed by Mr. Sessions (the "Sessions Memo"). It is the Company's opinion that the Sessions Memo does not represent a significant policy shift as it does not alter the DOJ's discretion or ability to enforce federal cannabis laws, but rather provides additional latitude to the DOJ to potentially prosecute state-legal cannabis businesses even if they are not engaged in cannabis-related conduct enumerated by the Cole Memo as being an enforcement priority. The result of the rescission of the Cole Memo is that federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions; however, discretion is still given to the federal prosecutor to weigh all relevant considerations of the crime, including the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community. No direction was given to federal prosecutors as to the priority they should ascribe to such activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities.

Furthermore, the Sessions Memo did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis was protected against enforcement by enacted legislation from US Congress in the form of the Rohrabacher-Blumenauer Amendment (as defined herein) which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding (see "US Enforcement Proceedings"). Due to the ambiguity of the Sessions Memo in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law (see "Risk Factors").

Even though the Cole Memo has been rescinded, the Company will continue to abide by its principles and prescriptions, as well as strictly following the regulations set forth by the current US federal enforcement guidelines and US states in which the retail cannabis dispensaries operate in.

On January 16, 2018, a bipartisan coalition of state Attorneys General had issued a letter to Congressional leadership urging them to "advance legislation" to permit state-licensed cannabis businesses greater access to banking and other financial services. The letter was undersigned by the Attorneys General from the states of Alaska, California, Colorado, Connecticut, Hawaii, Illinois, Iowa, Maine, Maryland, Massachusetts, New Mexico, New York, Oregon, Pennsylvania, Vermont, and Washington, as well as from the District of Columbia and the US Territory of Guam.

On March 22, 2018, the House of Representatives and Senate voted in favor of approving the Omnibus Spending Bill (the "Bill") and it was signed into law the following day by US President Donald Trump. With the Bill's approval came an extension of Rohrabacher-Leahy Amendment until September 2018, which is represented by Section 538 of the Bill. The Rohrabacher-Leahy Amendment prevents the DOJ from using federal funds in enforcing federal law relating to medical cannabis, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical cannabis. The amendment was first introduced in 2014 and has been reaffirmed annually since then. It should be noted that this amendment does not apply to adult-use cannabis.

On April 13, 2018, the Washington Post reported that President Trump and Colorado US Senator Cory Gardner reached an understanding that the cannabis industry in Colorado will not be the subject of interference from the federal government and that the DOJ's recission of the Cole Memo will not impact Colorado's legal cannabis industry.

Furthermore, President Trump provided assurances that he will support a federalism-based legislative solution to fix the issue regarding states' rights to regulate cannabis. The Company is pleased to see reports that President Trump has promised top Senate Republicans that he will support congressional efforts to protect states that have legalized cannabis. The Company is cautiously optimistic that these developments represent a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the US federal government.

On November 7, 2018, Mr. Sessions resigned after the US mid-term elections, both developments potentially impacting the US cannabis industry. From the mid-term elections, US voters delivered a split verdict for the US federal Congress, as the Democrats secured a majority in the US House of Representatives (the "House") while the Republicans expanded their majority in the US Senate (the "Senate"). With the Democrats taking back control of the House, it may prove to be a catalyst for the sector to reinforce the notion that cannabis in the US is getting closer to the path of eventual full legal status. While pro-cannabis legislation would still require passage by the Senate and enactment by the US federal executive branch of government, the path to legalization seems to have opened up with Mr. Sessions' departure. With divided congressional power, there will be opportunity for bipartisanship on a number of issues, including the Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, S. 3032, which would protect individuals working in cannabis sectors from federal prosecution. The STATES Act was introduced in June 2018 through bipartisan efforts initiated by Senator Gardner together with Massachusetts US Senator Elizabeth Warren. Senator Warren won re-election which suggests she will support the change to federal law regarding cannabis. In addition, constituents of the State of Michigan voted to legalize recreational cannabis, making Michigan the first state in the Midwest US to do so and the 10th in the US overall, demonstrating growing sentiment among Americans towards legalization. Voters in the states of Missouri and Utah also approved ballot measures legalizing cannabis for medical use, making their states the 31st and 32nd to do so.

On December 20, 2018, the 2018 Farm Bill was signed by President Trump, and it permanently removed hemp and hemp derivatives such as CBD from the purview of the FCSA. Prior to its enactment, the 2014 Farm Bill allowed industrial hemp to be cultivated under agricultural pilot programs conducted by State departments of agriculture and institutions of higher education. The Statement of Principles published by the USDA, the DEA and the FDA in 2016 confirmed that state departments of agriculture, and persons licensed, registered, or otherwise authorized by them to conduct research under an agricultural pilot program in accordance with the 2014 Farm Bill, or persons employed by or under a production contract or lease with them to conduct such research, may grow or cultivate industrial hemp as part of the agricultural pilot program.

On March 9, 2019, a bill to advance the Secure and Fair Enforcement (SAFE) Banking Act, a landmark bill that would provide safe harbor and guidance to financial institutions that work with legal cannabis businesses, was introduced in the House by Colorado Federal congressperson Ed Perlmutter and was referred to the House Judiciary and Financial Services Committees. On March 28, 2019, the Financial Services Committee voted 45 to 15 to advance the bill to the full House. The bill had broad bipartisan support, and there were 152 co-sponsors at the time of the committee vote – over a third of the entire House.

On May 8, 2019, Attorneys General of 33 states and five territorial attorneys sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for cannabis companies. The new letter, led by Colorado Attorney General Phil Weiser, was joined by Attorneys General from Alaska, Arizona, Arkansas, California, Connecticut, Delaware, the District of Columbia, Guam, Hawaii, Illinois, Iowa, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nevada, New Jersey, New Mexico, New York, North Dakota, the Northern Mariana Islands, Ohio, Oklahoma, Oregon, Pennsylvania, Puerto Rico, Rhode Island, Utah, the US Virgin Islands, Vermont, Virginia, Washington, West Virginia and Wisconsin.

On June 20, 2019, the 2020 Appropriations Act was amended by a US Congress house floor vote to include "Amendment No. 17," which expanded the previously-mentioned protective cannabis amendments to appropriations bills, and which now specifically prohibits the DOJ from interfering with "state cannabis programs," which include both medical and adult-use cannabis programs.

On July 10, 2019, the House Judiciary Subcommittee on Crime, Terrorism and Homeland Security gathered to debate cannabis reform, as lawmakers sought input on federal laws reform in a hearing titled "Marijuana Laws in America:

Racial Justice and the Need for Reform." Numerous members of Congress had indicated their intention to loosen US federal laws, and to even legalize cannabis. Despite the optimism, lawmakers did not appear to have a clear consensus on the best approach, such as whether to give states the right to legalize on their own, remove cannabis from Schedule 1 of the FCSA, legalize it or include promote social and racial equity in cannabis laws.

On September 23, 2019, Attorneys General of 21 states sent another letter to congressional leaders, voicing support for a bipartisan bill that would shield state-legal cannabis programs from federal interference. The letter emphasizes that the STATES Act would enable cannabis businesses to access financial services, increasing transparency and mitigating risks associated with operating on a largely cash-only basis. This new letter, led by Attorney General Karl Racine of the District of Columbia, was joined by Attorneys General from Alaska, California, Colorado, Connecticut, Illinois, Iowa, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, New Mexico, New York, Nevada, Oregon, Pennsylvania, Rhode Island, Vermont and Washington State.

On September 25, 2019, the House voted in favor of the SAFE Banking Act. The historic vote was the first time that a standalone cannabis bill has come before the House. The vote needed a two-thirds majority to pass and was supported by 321 votes in favor to 103 against. While the Company was pleased with the vote, which will help remedy the severe impact the lack of access to banking has had on the industry and the particular risks associated with operating in a largely cash-based industry, it would also urge the Senate to adopt similar banking protections and approve the Marijuana Opportunity Reinvestment and Expungement (MORE) Act which would remove cannabis from the FCSA and take steps to begin repairing the harms of the war on drugs.

On November 21, 2019, the House Judiciary Committee voted 24 to 10 in favor of passing the MORE Act of 2019. The bill would effectively put an end to cannabis prohibition in the US on the federal level by removing it from Schedule 1 of the FCSA, and past federal cannabis convictions would be expunged. Additionally, if fully passed, the law would allow the Small Business Administration to issue loans and grants to cannabis-related businesses and provide a green light for physicians in the Veterans Affairs system to prescribe medical cannabis to patients, as long as they abide by state-specific laws.

While the MORE Act has yet to be voted on by the full House, provisions of the SAFE Banking Act have been incorporated into the latest stimulus package passed by the House on May 15, 2020. The Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act is a $3 trillion stimulus bill passed in response to the economic and health crisis caused by COVID-19. The Senate is expected to vote on its own version of the stimulus bill sometime in the next several weeks. The bill, if passed, would eliminate the possibility of any repercussions for federally regulated financial institutions for doing business with cannabis companies. However, because the banking reform is included in coronavirus relief legislation, there is a newborn sense of hope that the bill could be signed into law.

Since Jeff Sessions' replacement as US Attorney General by President Trump with William Barr, there has been very little clarity as to how the Trump Administration, or more specifically Attorney General Barr, will enforce federal law or how they will deal with states that have legalized medical or recreational cannabis. While bipartisan support is gaining traction on decriminalization and reform, there is no imminent timeline on any potential legislation. There is no guarantee that the current Presidential administration will not change its stated policy regarding the low-priority enforcement of US federal laws that conflict with state laws. Additionally, any new US federal government administration that follows the Trump administration could change this policy and decide to enforce the US federal law vigorously. **Any such change in the US federal government's enforcement of current US federal law could cause adverse financial impact and remain a significant risk to the Company's businesses, which could in turn have an impact on the Company's operations or financial results. A change in its enforcement policies could impact the ability of the Company to continue as a going concern**. (see "Risk Factors.")

US enforcement proceedings

The US federal Congress has passed appropriations bills each of the last four years that included the Rohrabacher Amendment Title: H.R.2578 – Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("Rohrabacher-Blumenauer Amendment"), which by its terms does not appropriate any US federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws.

Subsequent to the issuance of the Sessions Memo on January 4, 2018, the US federal Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the ''Rohrabacher-Leahy Amendment'') and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of September 30, 2018. These protections were subsequently extended through December 21, 2018 as part of a short-term continuation of appropriations. Following the much-publicized shutdown of the US federal government, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with the Joyce Amendment intact (Section 538).

On June 20, 2019, the House voted 267 in favor of, and 165 against, approving a broader amendment that in addition to protecting state medical cannabis programs also protected recreational use. On September 26, 2019, the Senate Appropriations Committee declined to take up the broader amendment but did approve the Rohrabacher–Farr Amendment for the 2020 fiscal year spending bill. On September 27, 2019, the Rohrabacher–Farr Amendment was renewed as part of a stopgap spending bill, in effect through November 21, 2019.

On December 20, 2019, the amendment was renewed through the signing of the "Fiscal Year 2020 spending legislation", effective through to September 30, 2020.

US courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable state law. However, because this conduct continues to violate US federal law, US courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with applicable state law – could be prosecuted for violations of US federal law. If Congress restores funding, the US federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the FCSA's five-year statute of limitations.

State-level overview

Regulations differ significantly amongst the US states. Some states only permit the cultivation, processing and distribution of medical cannabis and cannabis-infused products. Some others may also permit the cultivation, processing, and distribution of cannabis and cannabis-infused products for adult use purposes. The following sections present an overview of state-level regulatory conditions for the cannabis industry in which the Company's retail dispensaries have an operating presence:

<u>California</u>

In 1996, the State of California was the first state to legalize medical cannabis through Proposition 215, the Compassionate Use Act of 1996 ("CUA"). The City of Oakland in California was the first jurisdiction to license commercial cannabis activities in the US. This legalized the use, possession, and cultivation of medical cannabis by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which cannabis provides relief. However, there was no state licensing authority to oversee businesses that emerged.

In September of 2015, the California state legislature (the "Legislature") passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("MCRSA"). The MCRSA established a licensing and regulatory framework for medical cannabis businesses in California. The system has multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible-infused product manufacturers require either a volatile solvent or non-volatile solvent manufacturing license, depending on their specific extraction methodology. Multiple agencies oversee different aspects of the program and businesses require a state license and local approval to operate.

On November 8, 2016, California residents voted to approve the "Adult Use of Marijuana Act" ("AUMA") to tax and regulate cannabis for all adults 21 years of age and older.

On June 27, 2017, the Legislature passed state Senate Bill No. 94, also known as MAUCRSA, which amalgamates the MCRSA and AUMA frameworks to provide a set of regulations to govern a medical and adult-use licensing regime for

cannabis businesses in the State of California. On November 16, 2017, the state government introduced emergency regulations, which are governed by the BCC, the CDPH and the CDFA, and which provide further clarity on the regulatory framework that will govern cannabis businesses. The regulations build on the earlier regulations provided by MCRSA and AUMA and also specify that the businesses will need to comply with local laws in order to also comply with the state regulations. On January 1, 2018, the new state regulations took effect as California moved to full adult-use state legalization for cannabis products.

To legally operate a medical or adult-use cannabis business in California, cannabis operators must obtain both a state license and local approval. Local authorization is a prerequisite to obtaining the state license, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are no residency requirements for ownership under MAUCRSA.

In California, two state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational cannabis, in response to the Sessions Memo. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize, cannabis," and "We intend to vigorously enforce our State's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our State's laws to the fullest extent."

On May 29, 2018, US federal and California state authorities announced a joint effort to target illegal cannabis grows, with $2.5 million in federal money backing the effort. McGregor Scott, US Attorney for the Eastern District of California, said he will prioritize illegal cannabis rather than pursuing enforcement with respect to the legal recreational cannabis market even though US federal law bans cannabis. He stated, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there … So for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

In March 2019, lawmakers in California had proposed state Senate Bill 51, which is designed to help cannabis businesses that have been shut out from the traditional banking system. Cannabis businesses have transacted predominantly in cash due to continued US federal banking restrictions that make it nearly impossible for them to have bank accounts with federally chartered financial institutions. There had also been efforts underway at the US federal level to pass legislation that would allow banks to serve cannabis-related businesses without the risk of being prosecuted. The proposed measure would allow private banks or credit unions to apply for a limited-purpose state charter so they can provide depository services to licensed cannabis businesses. California's legal cannabis industry is struggling to compete with the black market and is facing challenges that include banking access and high taxes.

In May 2019, Attorney General Becerra, along with 37 other state and territorial attorneys, sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for cannabis companies.

On August 6, 2019, the California DOJ released the "Guidelines for the Security and Non-Diversion of Cannabis Grown for Medicinal Use" to clarify the State's laws governing medicinal cannabis, and specifically those related to the enforcement, transportation, and use of medicinal cannabis. The guidelines come after significant changes in state law on adult-use cannabis use. The revised guidelines include:

- A summary of applicable laws.
- Guidelines regarding individual qualified patients and primary caregivers.
- Best practices for the recommendation of cannabis for medical purposes.
- Enforcement guidelines for State and local law enforcement agencies; and
- Guidance regarding collectives and cooperatives.

On September 23, 2019, California State Attorney General Becerra was among a bipartisan coalition of 21 state Attorneys General which urged Congress to pass the STATES Act of 2019 or similar measures that would allow legal cannabis-related businesses to access the banking system. "It's time for our federal laws relating to cannabis to enter the 21st century. A large majority of states have now legalized the use of cannabis in some form. But federal inaction has accelerated concerns about public safety, uncertainty, and disruptions to licensed businesses, and ultimately the respect for states' rights," said Attorney General Becerra. "The STATES Act is a promising step in the right direction that would safeguard licensed businesses that play by the rules in what has become a more than $8 billion industry. We call on Congress to pass legislation to bring certainty to states and territories that regulate an established and growing cannabis industry in America."

On October 12, 2019, Governor Newsom signed several cannabis-related bills that, among other things, are designed to bolster minority participation in the industry, ensure labor peace and institute a vaporizer cartridge labeling requirement, including one that will let legal businesses take advantage of more tax deductions. He also vetoed another measure that would have allowed some patients to use medical cannabis in health care facilities. A summary of the cannabis bills signed into law include:

- Senate Bill 595 requires the State to implement a program by January 1, 2021, that defers or waives license application and licensing or renewal fees for qualified "needs-based" applicants. This is a social equity provision to boost minority participation in the industry.
- Assembly Bill 1529 requires adding a universal symbol no smaller than a quarter-inch-by-quarter-inch on all cannabis vaporizer cartridges. The symbol must be engraved, affixed with a sticker, or printed in black or white.
- Assembly Bill 1291 strengthens an existing provision for cannabis businesses by requiring applicants with 20 or more employees to provide a notarized statement that they will enter into and abide by the terms of a labor peace agreement.
- Assembly Bill 858 clarifies some requirements for "specialty cottage" growers with a maximum 2,500 sq. ft. of canopy.
- Senate Bill 34 allows cannabis retailers to provide free products to medical patients that meet certain criteria. Such was a common industry practice until new regulations went into effect in 2018.

Governor Newsom also signed Assembly Bill AB 37, that allows cannabis business owners to deduct business expenses at the state level, something that remains illegal federally.

On January 10, 2020, Governor Newsom unveiled his annual state budget proposal which contains several provisions aimed at simplifying and streamlining regulations for the cannabis industry. The biggest proposed change concerns the State's cannabis licensing system, which would consolidate into The Department of Cannabis Control, rather than the three agencies that are currently in charge of approving cannabis businesses. "Establishment of a standalone department with an enforcement arm will centralize and align critical areas to build a successful legal cannabis market, by creating a single point of contact for cannabis licensees and local governments," the Newsom administration said in a summary. The proposals are not yet final, and the Newsom administration had initially scheduled to post changes in May 2020, with the final budget expected to be enacted in the summer of 2020. The proposals, however, are unlikely to be enforced until 2021 at the earliest.

In response to the rapid spread of COVID-19, on March 19, 2020, Governor Newsom issued Executive Order N-33-20 directing all residents immediately to stay home and remain sheltered, except as needed to maintain continuity of operations of essential critical infrastructure sectors and additional sectors as the State Public Health Officer (the "SPHO") may designate as critical to protect the health and well-being of all Californians. In accordance with this order, the SPHO designated a list of Essential Critical Infrastructure Workers to help state, local, tribal, and industry partners as they work to protect communities, while ensuring continuity of functions critical to public health and safety, as well as economic and national security. Cannabis workers were included in this essential designation list under the Healthcare/Public Health and Food and Agriculture Sectors. In addition, cannabis operations were also deemed essential and encouraged to remain open under the various shelter-in-place orders issued by local county health officers as well.

On April 21, 2020, the Governor's Office of Business and Economic Development, in partnership with the BCC, announced $30 million in grant funding through the Cannabis Equity Grants Program for Local Jurisdictions, which focuses on the inclusion and support of individuals in California's legal cannabis marketplace who are from communities negatively or disproportionately impacted by cannabis criminalization. This is done through small business support services like technical assistance to individuals, reduced licensing fees or waived fees, assistance in recruitment, training, and retention of a qualified and diverse workforce, and business resilience such as emergency preparedness. At least $23 million of the funding, in the form of low/no-interest loans or grants, will be directly allocated to applicants and licensees specifically identified by local jurisdictions as being from communities most harmed by cannabis prohibition. To date, jurisdictions seeking to create this inclusive regulatory framework represent roughly a quarter of the state's population.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by US federal authorities or prosecutors regarding the risk of enforcement action in California.

Oregon

At present, the State of Oregon has both medical and adult-use cannabis programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical cannabis law with an inclusive set of qualifying conditions that include chronic pain. In 2013, the Oregon legislature passed, and governor signed, Oregon State House Bill 3460 to create a regulatory structure for existing unlicensed medical cannabis businesses. However, the original regulations created by the Oregon Health Authority ("OHA") after the passage of House Bill 3460 were minimal and only regulated storefront dispensaries, leaving cultivators and infused-product manufacturers within the unregulated patient/caregiver system. On June 30, 2015, Oregon Governor Kate Brown signed House Bill 3400 into law, which improved on the existing regulatory structure for medical cannabis businesses and created a licensing process for cultivators (growers) and processors. The OHA is the state agency that licenses and regulates medical cannabis businesses. The medical cannabis regulatory framework is referred to as the Oregon Medical Marijuana Program.

In November of 2014, Oregon voters passed Measure 91, the "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act," creating a regulatory system for individuals 21 years of age and older to purchase cannabis for personal use from licensed retail cannabis stores, as well as cultivating cannabis at home. The OLCC licenses and regulates adult-use cannabis businesses. On October 15, 2015, the OLCC published draft recreational cannabis rules, which were finalized and took effect on June 29, 2016, as OLCC Division 25 of the Oregon Administrative Rules ("OAR Division 25"). These rules have been updated on a regular basis since that time, due to administrative prerogative and legislative changes. Currently licensed cannabis companies in Oregon are not subject to residency requirements. OAR Division 25 will continue to evolve and there is no certainty that changes will not adversely affect the Company's operations or financial results, as the changes are subject to OLCC's review and approval.

In Oregon, there are six types of recreational cannabis licenses for commercial uses: Producer, Processor, Wholesaler, Retail, Laboratory, a Certificate for Research, and a Hemp Certificate. While there is no limit on the number of licenses being issued, state regulators in Oregon had temporarily discontinued processing new adult-use licenses effective June 15, 2018, due to an oversupplied recreational cannabis market and a backlog of applications in the state.

In February 2018, US Attorney Billy Williams told a gathering that included Governor Brown, law enforcement officials and representatives of the cannabis industry that Oregon has an "identifiable and formidable overproduction and diversion problem." In May 2018, Attorney Williams issued a memorandum spelling out five US federal enforcement priorities for illegal cannabis operations that violate US federal laws, with the first priority to crack down on the leakage of surplus cannabis into bordering states where cannabis is still illegal. The memo also stated that US federal prosecutors will also target keeping cannabis out of the hands of minors, any crimes that involve violence or firearm violations or organized crime, and cultivation that threatens to damage US federal lands through improper pesticide and water usage.

In May 2019, Oregon State Attorney General Ellen Rosenblum, along with 37 other state and territorial attorneys general, had sent a letter to US federal congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for cannabis companies.

On September 23, 2019, Attorney General Rosenblum was also among a bipartisan coalition of 21 state Attorneys General, which urged Congress to pass the STATES Act of 2019 or similar measures that would allow legal cannabis-related businesses to access the banking system.

Similar to California, Governor Brown also deemed cannabis an essential business in Oregon and had allowed cannabis operators to remain open during the COVID-19 pandemic.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by US federal authorities or prosecutors regarding the risk of enforcement action in Oregon.

Assets related to US cannabis activities

The following represents the portion of certain assets on Harborside's unaudited condensed interim consolidated statements of financial position that pertain to US cannabis activities as of June 30, 2020:

Statement of Financial Position Line Item	**Percentage (%) which related to holdings with US cannabis-related activities**
Cash and cash equivalents	53%
Accounts receivable	73%
Inventories	100%
Biological assets	100%
Prepaid expenses	98%
Other current assets	100%
Investments and advances	100%
Property, plant and equipment	100%
Right-of-use assets	100%
Deposits	100%
Intangible assets	100%
Goodwill	100%

The following represents the operating exposure on Harborside's unaudited condensed interim consolidated statements of loss and comprehensive loss that pertain to US cannabis activities for the six months ended June 30, 2020:

Statement of Net Loss and Comprehensive Loss	**Percentage (%) which related to holdings with US cannabis-related activities**
Retail revenue, net	100%
Wholesale revenue, net	100%
Cost of goods sold – retail	100%
Cost of goods sold – wholesale	100%
Changes in fair value less costs to sell of biological assets transformation	100%
Realized fair value amounts included in inventory sold	100%
General and administrative expenses	98%
Professional fees	73%
Share-based compensation	91%
Write-downs of receivables, investments and advances	100%
Depreciation and amortization	100%
Interest expense	96%
Other income (expense)	100%
Fair value changes in derivative liabilities	100%
Foreign exchange gain	100%

Financial Information

Selected quarterly financial results

The following tables presenting the Company's quarterly results of operations should be read in conjunction with the Q2 2020 Interim Financial Statements and related notes included thereon. The Company has prepared the unaudited information on the same basis as the Q2 2020 Interim Financial Statements. Operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year.

Harborside's selected financial information for the eight most recently completed quarters as at June 30, 2020 are as follows:

	Q2 2020	Q1 2020	Q4 2019	Q3 2019
	$	$	$	$
Retail revenue, net	10,940,143	10,181,471	9,511,221	10,393,497
Wholesale revenue, net	5,208,439	4,456,775	2,185,701	3,299,720
Total revenue	16,148,582	14,638,246	11,696,922	13,693,217
Gross profit	7,596,476	6,659,806	3,055,900	4,888,112
Operating expenses	(7,119,202)	(6,182,951)	(46,608,571)	(8,464,955)
Operating income (loss)	477,274	476,855	(43,552,671)	(3,576,843)
Net loss & comprehensive loss	(1,747,743)	(2,387,136)	(44,961,965)	(1,943,496)
Net loss per share – basic and diluted	(0.03)	(0.05)	(1.40)	(0.05)

	Q2 2019[3]	Q1 2019[4]	Q4 2018[5]	Q3 2018[5]
	$	$	$	$
Retail revenue, net	10,387,178	8,261,689	-	-
Wholesale revenue, net	2,153,200	2,819,081	-	-
Services and rental revenue – related party	-	441,252	5,347,563	5,993,655
Total revenue	12,540,378	11,522,021	5,347,563	5,993,655
Gross profit	4,251,768	2,619,383	3,551,318	3,645,362
Operating expenses	(10,818,033)	(6,875,895)	(5,319,706)	(4,794,323)
Operating loss	(6,566,265)	(4,256,512)	(1,768,388)	(1,148,961)
Net loss and comprehensive loss	(6,132,742)	3,580,088	(2,925,011)	(2,874,575)
Net loss per share – basic and diluted	(0.22)	0.18	(0.19)	(0.19)

Financial Information for the Three Months ended June 30, 2020

Results of operations

During Q2 2020, Harborside generated net retail revenue of $10.9 million (Q2 2019 – $10.4 million) and net wholesale revenue of $5.2 million (Q2 2019 – $2.2 million), for total gross revenue of $16.1 million (Q2 2019 – $12.5 million). The year-over-year increase in retail revenue was driven primarily by increased foot traffic in the Company's retail stores due to marketing initiatives launched during the quarter, combined with improved in-store merchandising, and a focus on selling more flower SKU's that were produced in-house. The year-over-year increase in wholesale revenues was primarily due to improved harvest yields and flower quality, which allowed the company to bring more product to market and sell it for a higher average price.

[3] As a result of the RTO Transaction, the financial information presented as at, subsequent to, and for the three months ended June 30, 2019 are presented on a consolidated basis, including the financial results of FLRish, Lineage, PMACC and SJW, effective May 30, 2019.

[4] As a result of the acquisitions of PMACC and SJW, the financial information presented as at, and for the three months ended March 31, 2019 are presented on a consolidated basis, including the financial results of FLRish, PMACC and SJW, effective January 7, 2019.

[5] The quarterly financial information for 2018 are presented are those of FLRish only, and exclude the impact of the Acquisition of PMACC and SJW and the RTO Transaction.

During Q2 2020, cost of goods sold for the retail and wholesale operations totalled $5.3 million and $2.8 million (Q2 2019 – $5.3 million and $2.3 million), respectively. Gross profit before biological assets adjustments for Q2 2020 was $7.2 million, or a gross margin of 46.9% (Q2 2019 – $4.6 million; gross margin before biological assets adjustments of 37.4%). During Q2 2020, the Company recorded an increase in fair value less cost to sell ("FVLCS") of biological assets transformation of $1.3 million (Q2 2019 – decrease in FVLCS of biological assets transformation of $1.1 million), and a realized fair value loss on amounts included in inventories sold of $0.9 million (Q2 2019 – realized fair value gain of $0.8 million), for an overall gross profit of $7.6 million and gross margin of 49.7% (Q2 2019 – gross profit of $4.3 million and gross margin of 35.0%). Year-over-year gross margin improvements were primarily due to improved product mix and pricing at retail, combined with higher cultivation yields and higher selling prices at wholesale.

The Company does not experience significant seasonality in its revenue and other important financial performance metrics. However, as a participant in the wholesale cannabis market in California, as a general matter, the overall supply of cannabis has historically increased in the months of September through December, due primarily from production of outdoor cannabis cultivation facilities whose major harvests occur during these months and which, as a result, could cause a decrease generally in the wholesale price for cannabis products.

During Q2 2020, the Company incurred total operating expenses of $7.1 million (Q2 2019 – $10.8 million). The year-to-year decrease in operating expenses is primarily related to the following items:

- Decrease in general and administrative expenses of $0.3 million, to $4.5 million as compared to $4.8 million in Q2 2019, due primarily to:
  - Salaries and benefits of $2.7 million (Q2 2019 – $3.4 million).
  - Office and general expenses of $1.4 million (Q2 2019 – $1.0 million); and
  - Advertising and promotion expenses of $0.2 million (Q2 2019 – $0.2 million).
  - Banking and processing fees of $0.2 million (Q2 2019 – $0.3 million); and
  - Taxes and licenses expenses of $35k (Q2 2019 – recovery of $0.1 million).
- Decrease in share-based compensation of $0.9 million, to a recovery of $0.2 million as compared to share-based compensation expense of $0.7 million in Q2 2019. The reduction noted in the current quarter is due to reversal of share-based compensation on forfeitures of options upon departures of certain former officers, while the expense recorded in the comparative period is due to vesting of stock options and restricted share awards which was mostly recognized during Fiscal 2018 and the first half of Fiscal 2019.
- Decrease in professional fees of $2.7 million, to $2.3 million as compared to $5.0 million in Q2 2019, which was primarily due to reduced legal expenses incurred over the course of normal operations, as the Company was focused on closing the RTO Transaction in the comparative period; offset by
- Increase in write-downs of receivables, investments and advances of $0.2 million, to $0.3 million as compared to $0.1 million in Q2 2019, as the Company recorded impairments on certain of its investments; and
- Increase in depreciation and amortization of $0.1 million, to $0.3 million as compared to $0.2 million in Q2 2019, recorded on the Company's property, plant and equipment, intangible assets, and right-of-use ("ROU") assets.

In addition, the Company incurred total other expenses of $0.8 million during Q2 2020, as compared to total other income of $1.6 million generated in Q2 2019, of which the change of $2.4 million is primarily comprised of the following:

- Interest expenses of $1.1 million (Q2 2019 – $2.3 million), primarily related to interest financing agreements related to the cultivation facility, combined with interest accrued on prior year tax provisions. In the comparative period in 2019, the interest is principally recorded on the Company's convertible debts obligations prior to their conversion upon the RTO Transaction; and
- Loss from fair value change in derivative liabilities of $41k (Q2 2019 – gain from fair value change in derivative liabilities of $3.5 million).

During Q2 2020, the Company also recorded an income tax provision of $1.4 million (Q2 2019 – $1.1 million) based on estimated income taxes payable as at period-end.

Overall, net loss and comprehensive loss for the three months ended June 30, 2020 was $1.7 million (net loss of $0.03 per share), as compared to a net loss and comprehensive loss of $6.1 million (net loss of $0.22 per share) for the comparative period in 2019.

Cash flows

Net cash from operating activities during Q2 2020 was $0.8 million, as compared to net cash used in operating activities of $4.5 million in the comparative period in 2019. The Company was able to substantially reduce its operating expenses, while at the same time, make arrangements to defer payment of certain of its obligations. In the comparative period in 2019, the Company had an increase in spending out of necessity, as management has embarked on an expansion strategy in California, as well as having focused its efforts on the RTO Transaction during the early part of Fiscal 2019.

Net cash used in financing activities during Q2 2020 was $0.3 million, primarily from the investments made into Accucanna. In the comparative period in 2019, the Company raised total funds of $13.8 million from its financing activities, as it raised funds of $14.6 million from a brokered private placement offering of subscription receipts in May 2019 (the "Concurrent Offering"). The funds raised in 2019 were offset by cash issuance costs of $1.4 million incurred from the Concurrent Offering and a repayment of $0.6 million on one of the Company's notes payable.

Investing activities were minimal for Q2 2020, as the Company spent an immaterial amount for additions of new property, plant and equipment.

Financial Information for the Six Months ended June 30, 2020

Results of operations

During the six months ended June 30, 2020, Harborside generated net retail revenue of $21.1 million (2019 – $18.6 million) and net wholesale revenue of $9.7 million (2019 – $4.9 million), for total gross revenue of $30.8 million (2019 – $24.1 million, including services and rental revenue of $0.4 million from PMACC and SJW from January 1, 2019 up to the merger on January 7, 2019). The year-over-year increase in retail revenue was driven primarily by increased foot traffic in the Company's retail stores due to new marketing initiatives launched and aimed at increasing sales, combined with improved in-store merchandising, and a focus on selling more flower SKU's that were produced in-house. The Company experienced an increase in sales due to COVID-19 during the last two weeks of the first quarter of 2020, which also contributed approximately $200,000 of incremental revenue for the period to date. The year-over-year increase in wholesale revenues was primarily due to improved harvest yields and flower quality, which allowed the company to bring more product to market and sell it for a higher average price.

During the six months ended June 30, 2020, cost of goods sold for the retail and wholesale operations totalled $10.3 million and $6.4 million (2019 – $9.8 million and $5.1 million), respectively. Gross profit before biological assets adjustments for the six months ended June 30, 2020 was $12.2 million, or a gross margin of 42.2% (2019 – $7.9 million; gross margin before biological assets adjustments of 34.2%). During the six months ended June 30, 2020, the Company recorded an increase in fair value less cost to sell ("FVLCS") of biological assets transformation of $2.3 million (2019 – decrease in FVLCS of biological assets transformation of $2.0 million), and a realized fair value loss on amounts included in inventories sold of $0.3 million (2019 – realized fair value gain of $1.0 million), for an overall gross profit of $14.3 million and gross margin of 49.2% (2019 – gross profit of $6.9 million and gross margin of 29.7%). Year-over-year gross margin improvements were primarily due to improved product mix and pricing at retail, combined with higher cultivation yields and higher selling prices at wholesale.

The Company does not experience significant seasonality in its revenue and other important financial performance metrics. However, as a participant in the wholesale cannabis market in California, as a general matter, the overall supply of cannabis has historically increased in the months of September through December, due primarily from production of outdoor cannabis cultivation facilities whose major harvests occur during these months and which, as a result, could cause a decrease generally in the wholesale price for cannabis products.

During the first half of Fiscal 2020, the Company incurred total operating expenses of $13.3 million (2019 – $17.7 million). The year-to-year decrease in operating expenses is primarily related to the following items:

- Decrease in general and administrative expenses of $0.9 million, to $8.6 million as compared to $9.5 million in the comparative period in 2019, due primarily to:
  - Salaries and benefits of $5.3 million (2019 – $6.6 million).
  - Office and general expenses of $2.4 million (2019 – $1.7 million).
  - Advertising and promotion expenses of $0.3 million (2019 – $0.2 million).
  - Banking and processing fees of $0.4 million (2019 – $0.5 million); and
  - Taxes and licenses expenses of $0.1 million (2019 – $0.3 million).
- Decrease in share-based compensation of $1.5 million, to a recovery of $0.1 million as compared to share-based compensation expense of $1.4 million in 2019. The reduction noted in the period year-to-date is due to reversal of share-based compensation on forfeitures of options upon departures of certain former officers. In the comparative period in 2019, the share-based compensation amount is due to vesting of stock options and restricted share awards which was mostly recognized during Fiscal 2018 and the first half of Fiscal 2019; offset by
- Decrease in professional fees of $2.3 million, to $4.0 million as compared to $6.3 million in 2019, which was primarily due to legal expenses incurred over the course of normal operations, especially as the Company was focused on closing the RTO Transaction in the comparative period; offset by
- Increase in write-downs of receivables, investments and advances of $0.2 million, to $0.3 million as compared to $0.1 million in 2019, as the Company recorded impairments on certain of its investments; and
- Increase in depreciation and amortization of $0.2 million, to $0.6 million as compared to $0.4 million in 2019, recorded on the Company's property, plant and equipment, intangible assets, and ROU assets.

In addition, the Company incurred total other expenses of $2.3 million during the six months ended June 30, 2020, as compared to total other income of $10.3 million generated in the comparative period, of which the change of $12.6 million is primarily comprised of the following:

- Interest expenses of $2.2 million (2019 – $5.0 million), primarily related to interest financing agreements related to the cultivation facility, combined with interest accrued on prior year tax provisions. In the comparative period in 2019, the interest is principally recorded on the Company's convertible debts obligations prior to their conversion upon the RTO Transaction; and
- Gain from fair value change in derivative liabilities of 15.2 million recorded in the comparative period in 2019.

During the six months ended June 30, 2020, the Company also recorded an income tax provision of $2.8 million (2019 – $2.0 million) based on estimated income taxes payable as at period-end.

Overall, net loss and comprehensive loss for the six months ended June 30, 2020 was $4.1 million (net loss of $0.08 per share), as compared to a net loss and comprehensive loss of $2.6 million (net loss of $0.11 per share) for the comparative period in 2019.

Cash flows

Net cash from operating activities during the six months ended June 30, 2020 was $1.7 million, as compared to net cash used in operating activities of $7.3 million in the comparative period in 2019. In the current period to date, the Company was able to substantially reduce its operating expenses, while at the same time, make arrangements to defer payment of certain of its obligations. In the comparative period in 2019, the Company had an increase in spending out of necessity, as management has embarked on an expansion strategy in California, as well as having focused its efforts on the RTO Transaction during the first half of Fiscal 2019.

Net cash used in financing activities during the six months ended June 30, 2020 was $0.3 million, primarily from the investments made into Accucanna. In the comparative period in 2019, the Company raised total funds of $13.8 million

from its financing activities. In May 2019, the Company raised funds of $14.6 million from the Concurrent Offering and additional proceeds of $1.9 million from issuance of the last tranche of its Series B Debentures Units (as defined below) issued in February 2019. The funds raised were offset by cash issuance costs of $1.4 million incurred from the Concurrent Offering and a repayment of $1.3 million on one of the Company's notes payable.

Investing activities were minimal for the six months ended June 30, 2020, as the Company spent approximately $0.2 million on additions of new property, plant and equipment. In the comparative period in 2019, net cash used in investing activities was $2.2 million. In 2019, the Company advanced $0.7 million to San Leandro Wellness Solutions Inc. ("SLWS") and made a non-refundable deposit of $1.0 million in pursuant to a proposed acquisition with Airfield Supply Company that the Company is no longer pursuing. The Company also spent $2.9 million in property, plant and equipment as construction of the Venlo Greenhouse continued during the period. The outflow was offset by cash of $2.3 million from the acquisitions of PMACC and SJW and the RTO Transaction.

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.

These supplemental non-IFRS financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believes that the supplemental non-IFRS financial measures presented provide additional perspective and insight 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 Gross Profit & Adjusted Gross Margin

Adjusted Gross Profit and Adjusted Gross Margin exclude the fair value adjustments for the Company's biological assets.

	Three months ended June 30, 2020	Three months ended June 30, 2019	**Six months ended June 30, 2020**	Six months ended June 30, 2019
	$	$	**$**	$
Net Revenue	**15,283,941**	12,152,740	**28,952,770**	23,139,153
Gross Profit	**7,596,476**	4,251,768	**14,256,282**	6,871,151
Adjusted for:				
Net effect of change in fair value less cost to sell of biological assets	**(1,282,559)**	1,095,474	**(2,324,001)**	2,033,600
Adjusted Gross Profit	**6,313,917**	5,347,242	**11,932,281**	8,904,751
Adjusted Gross Margin	**41.3%**	44.0%	**41.2%**	38.5%

After adjusting for the effect of change in the fair value of biological assets, the Adjusted Gross Profit for the three and six months ended June 30, 2020 was $6.3 million and $11.9 million (2019 – $5.3 million and $8.9 million), respectively. The Adjusted Gross Margin for the three and six months ended June 30, 2020 was 41.3% and 41.2% (2019 – 44.0% and 38.5%), respectively.

Adjusted EBITDA & Adjusted EBITDA Margin

"Adjusted EBITDA" is a metric used by management which is net loss, as reported, before interest, provisions for income taxes, and other non-cash or extraordinary non-recurring items, including depreciation and amortization, share-based compensation, non-cash provisions, and the non-cash effects of accounting change in FVLCS of biological assets and derivative liabilities. "Adjusted EBITDA Margin" is Adjusted EBITDA as a percentage of reported net revenue.

	Three months ended June 30, 2020	Three months ended June 30, 2019	**Six months ended June 30, 2020**	Six months ended June 30, 2019
	$	$	**$**	$
Net (Loss) Income	**(1,747,743)**	(6,132,738)	**(4,134,879)**	(2,552,654)
Adjusted for:				
Change in fair value of biological assets	**(1,282,559)**	1,095,474	**(2,324,001)**	2,033,600
Share-based compensation	**(173,792)**	658,625	**(68,058)**	1,380,551
Write-down of receivables, investments and advances	**250,280**	-	**250,280**	90,334
Depreciation and amortization	**277,933**	206,605	**568,577**	437,845
Interest expense	**1,075,323**	2,309,523	**2,178,453**	5,044,753
Fair value change in derivative liabilities	**40,913**	(3,497,440)	**(3,059)**	(15,193,558)
Foreign exchange (gain) loss	**(161,442)**	(403,290)	**247,340**	(130,307)
Non-recurring expenses	**976,985**	2,922,553	**1,541,980**	2,922,553
Income tax provision	**1,386,127**	1,140,693	**2,816,954**	1,985,304
Adjusted EBITDA	**642,025**	(1,699,995)	**1,073,587**	(3,981,579)
Adjusted EBITDA Margin	**4.2%**	-14.0%	**3.7%**	-17.2%

After adjusting for interest, provisions for income taxes, and adjusted for removing other non-cash or extraordinary non-recurring items, including depreciation and amortization, share-based compensation, non-cash provisions, the non-cash effects of accounting change in FVLCS of biological assets and derivative liabilities, the Adjusted EBITDA for the three and six months ended June 30, 2020 was an adjusted earnings of $0.6 million and $1.1 million (2019 – adjusted loss of $1.7 million and $4.0 million), respectively. The Adjusted EBITDA Margin for the three and six months ended June 30, 2020 was an adjusted EBITDA margin of 4.2% and 3.7% (2019 – adjusted negative margin of 14.0% and 17.2%), respectively.

Working Capital and Liquidity Outlook[6]

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

As at June 30, 2020, the Company had total current assets of $21,901,101 (December 31, 2019 – $18,314,273), including cash and cash equivalents of $13,638,655 (December 31, 2019 – $12,164,927) to settle current liabilities of $62,195,438 (December 31, 2019 – $56,376,734), for a net working capital deficiency of $40,294,337 (December 31, 2019 – working capital deficiency of $38,062,461).

The higher current liabilities as of June 30, 2020 is primarily due to the Company's provision for an uncertain tax position related to Section 280E of the Internal Revenue Code. The Company does not currently expect any resultant potential liabilities, or any possible payments resulting from its 280E provision to be resolved within 12 months of the issuance date of the financial statements. See "Provisions" for additional information.

Management believes there is sufficient capital available to meet short-term business obligations, after taking into account cash flow requirements from operations, the expected timing of its provision related to 280E and the Company's cash position at period-end.

[6] This section contains forward looking information and is based on a number of risks and assumptions, including those described under "Assumptions and Expectations". See "Cautionary Note Regarding Forward-Looking Statements".

Related Party Transactions and Key Management Compensation

(a) Key management personnel compensation

Key management includes directors and officers of the Company. Total compensation (comprised of salaries, one-time bonuses related to the RTO Transaction and share-based payments) awarded to key management for the three and six months ended June 30, 2020 and 2019 was as follows:

	2020	2019
	$	$
Short-term employee benefits, including salaries and directors' fees	**1,113,277**	1,738,801
Bonuses related to RTO Transaction	**-**	730,796
Severance payments	**-**	24,790
Share-based compensation – Directors and Executives	**(71,461)**	1,583,716
	1,041,816	4,078,103

As at June 30, 2020, a balance of $29,663 was owed to Peter Bilodeau, the Chairman of the Board of Directors (the "Board") and the Interim Chief Executive Officer ("CEO") (December 31, 2019 – $1,055). This amount was due to Emtra Business Services Inc., a company controlled by Mr. Bilodeau through which Mr. Bilodeau is compensated for his work as the Interim CEO of the Company.

As at June 30, 2020, $2,100 was owed to Tom DiGiovanni, the Chief Financial Officer ("CFO") (December 31, 2019 – $30,712). This amount was due to Newhouse Development LLC ("Newhouse"), a company controlled by Mr. DiGiovanni through which Mr. DiGiovanni is compensated for his work in acting as the CFO of the Company.

(b) Related Parties

Foundation Group of Companies

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

On February 28, 2018, FMICAI and FLRish executed a consulting agreement whereby FMICAI would provide merger and capital raising consulting services to FLRish (the "FMICAI Consulting Agreement"). Under the FMICAI Consulting Agreement, FMICAI was compensated by means of a monthly fee in the amount of C$15,000, which terminated upon completion of the RTO Transaction, and a success fee ranging from 2 to 4% of the transaction value for either an M&A transaction or an acquisition. For the six months ended June 30, 2019, Harborside paid FMICAI $56,528 (C$75,000) in fees related to the FMICAI Consulting Agreement (2020 – $nil). These amounts are recorded as professional fees in the Company's condensed interim consolidated statements of loss and comprehensive loss.

On December 3, 2018, FMICAI and FLRish entered into an advisory agreement (the "FMICAI Advisory Agreement") whereby FMICAI would provide consulting services to Harborside in addition to those contemplated under the FMICAI Consulting Agreement. In consideration of the additional services provided by FMICAI pursuant to the FMICAI Advisory Agreement, FMICAI is entitled to cash fees equal to an aggregate of $732,970 (C$1,000,000) and 143,241 advisory warrants. Each advisory warrant is exercisable at an exercise price of $4.15 (C$6.90) into 1/100 of an MVS until the earlier of 60 months from December 3, 2018 or 24 months from the completion of the RTO Transaction. The Company paid $281,222 (C$370,000) and $477,309 (C$630,000) during the six months ended June 30, 2019, related to the FMICAI Advisory Agreement (2020 – $nil). These amounts are recorded as professional fees in the Company's condensed interim consolidated statements of loss and comprehensive loss.

There were no outstanding accounts payable or accrued liabilities as at June 30, 2020 (December 31, 2019 – $nil) between the Company and FMI or FMICAI.

Quinsam Capital Corporation

In October 2018, Quinsam Capital Corporation ("Quinsam"), a merchant bank in Canada where Peter Bilodeau (the Interim CEO of the Company) was the President and a director, and where Keith Li (former CFO of the Company) is also the CFO, had subscribed for 250 Series B Debentures Units for $190,350 (C$250,000). In May 2019, Quinsam also subscribed for 30,000 subscription receipts of the Company for $155,925 (C$210,000) as part of the Concurrent Offering. Quinsam received 378,233 SVS through conversion of Series B Debenture Units subscribed from the 2018 Private Placements (as defined below) and the Concurrent Offering, and 56,485 SVS through its prior subscription of Lineage securities, in connection with the RTO Transaction.

Nutritional High International Inc.

Adam Szweras, a director of the Company, serves as the Chairman of the Board of Directors of Nutritional High International Inc. ("Nutritional High"), a public company that manufactures and processes hemp and cannabis infused oils, extracts, and edible products for medical and adult use. During the six months ended June 30, 2020, the Company made purchases at arm's-length market rates in the amount of $159,072 from a subsidiary of Nutritional High. As at June 30, 2020, an amount of $60,195 (December 31, 2019 – $103,687) owing to Nutritional High was included in accounts payable and accrued liabilities.

Entourage Effect Capital LLC

Matthew Hawkins, a director of the Company, is the Managing Partner of Entourage Effect Capital LLC (formerly Cresco Capital Partners II LLC), which subscribed for 288,000 subscription receipts for $1,496,880 (C$2,016,000) under the Concurrent Offering in May 2019.

Branson Corporate Services Ltd.

Branson Corporate Services Ltd. ("Branson") provides finance, accounting and administrative services to Harborside. Mr. Bilodeau holds a 18% ownership interest, Mr. Szweras holds a 15% ownership interest and an immediate family member of Mr. Szweras owns a 24% ownership interest in Branson. During the six months ended June 30, 2020, the Company was charged $65,988 (2019 – $52,493) for services provided by Branson, which is included in professional fees. As at June 30, 2020, an amount of $12,438 (December 31, 2019 – $nil) was owed to Branson.

Black Oak Ventures Ltd.

On April 10, 2020, Black Oak Ventures Ltd. ("Black Oak"), an entity where its principal is an immediate family member of the Company's Interim CEO, entered into a consulting agreement to provide certain investor relations services to the Company in exchange for cash compensation. During the six months ended June 30, 2020, the Company was charged $29,333 for services provided by Black Oak, which is included in professional fees. As at June 30, 2020, an amount of $12,430 was owed to Black Oak.

Legal Transactions

For the six months ended June 30, 2020, Aird & Berlis LLP ("Aird & Berlis"), a law firm where Sherri Altshuler, a director of Harborside, is also a partner, charged the Company $197,129 (2019 – $157,159) for legal services, an amount which is included in professional fees. As at June 30, 2020, an amount of $170,204 (December 31, 2019 – $115,663) owing to Aird & Berlis was included in accounts payable and accrued liabilities.

For the six months ended June 30, 2020, Fogler, Rubinoff LLP ("Fogler"), a law firm in which Mr. Szweras is a partner, provided a credit of $3,690 (2019 – charge of $324,294) on legal services previously provided to the Company, of which the amount is netted against professional fees. As at June 30, 2020, an amount of $1,673 (December 31, 2019 – $54,846) owing to Fogler was included in accounts payable and accrued liabilities. A portion of the outstanding balance represents fees for services rendered by Fogler for Lineage prior to the RTO Transaction.

(c) Other Related Parties

On February 26, 2020, the Board granted consent to FMICAI to transfer 510,200 SVS in the capital of Harborside to certain of FMICAI's officers, directors and employees with an effective date of December 31, 2019. The SVS transferred are subject to the provisions of certain lock-up agreements until June 10, 2022.

On June 1, 2020, the Company entered into an additional consulting agreement with Newhouse to provide financial and accounting services related to one of the Company's MSAs in exchange for cash compensation. The services are being provided by an immediate family member of the Company's CFO. As of June 30, 2020, a balance of $8,283 was owed to Newhouse, of which $6,183 was related to the above consulting agreement.

(d) PMACC and SJW

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

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

The Retail MSAs executed in July 2016, have a term of five years and renew automatically for two additional five-year periods, unless, on or before the dates of renewal, the Company or the clients determine, in their sole discretion, that the agreements shall not renew.

Fees for services rendered pursuant to the Retail MSAs are equal to 15% of dispensary gross revenues plus reimbursement of expenses incurred on behalf of the Harborside Dispensaries and are payable monthly. For the six months ended June 30, 2019, FLRish recognized contract services revenue of $83,187 when PMACC and SJW were not considered to be under common control with FLRish. The 2019 revenues pertain to the revenues earned prior to the merger on January 7, 2019.

The Farm MSA executed in September 2016, has a six-year term and automatically renews for an additional five-year term unless the parties mutually agree not to extend the term. The Farm MSA calls for PMACC to reimburse Savature for all expenses related to the cultivation and management services provided (the "Reimbursable Expenses"). Savature also charges an administration fee equal to 20% of the Reimbursable Expenses, which is payable monthly. The contract also provides for fees ("MSA Fees") to be paid from PMACC to Savature based upon the sales performance of products produced under the contract. The MSA Fees are based on prices which are mutually agreed upon by the PMACC and Savature.

For the six months ended June 30, 2019, FLRish had recognized revenue of $275,321 related to Reimbursable Expenses, administration fees, and MSA Fees related to the Farm MSA. The 2019 revenues pertain to the revenues earned prior to the merger on January 7, 2019.

Harborside leased cultivation facilities, buildings, and improvements to PMACC. The lease agreement commenced on September 15, 2016, with a six-year term subject to an automatic five-year extension. The lease calls for monthly rent amounts ranging from $185,895 to $801,550 as additional rentable square foot is delivered. For the six months ended June 30, 2019, FLRish had recognized contract services revenue of $82,744. The 2019 revenues pertain to the revenues earned prior to the merger on January 7, 2019.

For the year ended December 31, 2018, Harborside derived the entirety of its service and rental revenue from PMACC and SJW through the Retail MSAs and the Farm MSA. As at January 7, 2019, the Company had an accounts receivable balance with PMACC and SJW in the amount of $22,303,626. This balance was included as part of the total consideration paid for the acquisitions of PMACC and SJW by Harborside.

On October 29, 2018, Harborside loaned $4,000,000 to PMACC by way of a promissory note bearing interest of 12%. All principal and accrued interest was payable in a balloon payment due October 29, 2019. At December 31, 2018, the note had principal outstanding of $4,000,000 and accrued interest of $57,400. The balance outstanding as of $5,445,620 on January 7, 2019 was included as part of the total consideration paid for the acquisition of PMACC and SJW by Harborside.

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

Financial Instruments and Risk Management

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

Financial instruments

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

	Classification
Cash	Amortized cost
Accounts receivable, net	Amortized cost
Deposits	Amortized cost
Investments	FVTPL
Advances	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Notes payable and accrued interest	Amortized cost
Convertible notes payable	Amortized cost
Derivative liabilities	FVTPL

Fair value hierarchy

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

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

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

Cash, accounts receivable, accounts receivable-related party, and accounts payable and accrued liabilities are measured at Level 1 inputs. Investments and advances are initially measured using Level 1 inputs for cash advances and promissory notes. When the Company purchases additional equity interests and for certain liabilities, the fair value measurements require Level 3 inputs. Derivative liabilities use Level 3 inputs and are measured at fair value at each reporting period based on a Monte Carlo Simulation option-pricing model.

Credit risk

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

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

Liquidity risk

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

As at June 30, 2020, the Company had a cash balance of $13.6 million (December 31, 2019 – $12.2 million) to settle current liabilities of $62.2 million (December 31, 2019 – $56.4 million). The higher current liabilities as of June 30, 2020 is primarily due to the Company's provision for an uncertain tax position.

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

Management believes there is sufficient capital to meet short-term business obligations, after taking into account cash flow requirements from operations and the Company's cash position as at period-end.

Foreign exchange risk

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

Interest rate risk

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

Market risk

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

Asset forfeiture risk

As the cannabis industry remains illegal under US federal law, any property owned by participants in the cannabis industry which is either used in the course of conducting such business, or the proceeds of such business could be subject to seizure

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

Banking risk

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

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

Tax risk

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

The Company, after consulting with outside counsel, believes that only certain of its subsidiaries are subject to Internal Revenue Code ("IRC") Section 280E. However, there is a general risk that the Internal Revenue Service ("IRS") could attempt to apply Section 280E to other subsidiaries of the Company, in which instance the tax liability of the Company could be greater. While the Company would contest such efforts, the outcome of any such litigation is unpredictable.

Regulatory risk

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

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

Capital Management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet capital expenditures required for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of

assets. The Company is not subject to externally imposed capital requirements. The Board does not establish quantitative return on capital criteria for management, but rather relies on the management team's expertise to sustain future development of the business.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions by:

(i) minimizing discretionary disbursements.
(ii) reducing operating expenditures throughout the Company; and
(iii) exploring alternate sources of liquidity.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no material changes to the Company's capital management approach during the six months ended June 30, 2020 and the year ended December 31, 2019.

Significant Accounting Judgments and Estimates

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

Significant judgments, estimates and assumptions that have the most significant effects on the amounts recognized in the Company's unaudited condensed interim consolidated financial statements are described as follows:

Going concern

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

As indicated in Note 15 to the Q2 2020 Interim Financial Statements, the Company has recognized a provision for particular uncertain tax positions which are related to a business combination. The Company strongly disagrees with the positions taken by the IRS and the findings of the Tax Court and is actively appealing to the Ninth Circuit Court of Appeals. Management has considered, in consultation with outside counsel, that the final amount to be paid is uncertain and the timing of any payments arising from these proceedings or any future proceeding exceeds 12 months from the date that the unaudited condensed interim consolidated financial statements were authorized to be issued. No payments related to any of the provision amounts are expected to be paid until 2022. The Company believes it will have funds in the future to satisfy any such required cash outflows from its operating cash flow performance and other sources of financing. However, it is possible that the Company will need to obtain additional capital in order to meet these uncertain cash flow requirements and there is no assurance that such capital will be available or available on favorable terms.

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

The Company's unaudited condensed interim consolidated financial statements do not reflect adjustments to the reported carrying values of assets and liabilities; reported revenues and expenses; or, classifications in statements of

financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations.

Business combination

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

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

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

Fair value of biological assets and inventories

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

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

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

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

The valuation of work in process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for inventories. The Company must also determine if the cost of any inventories

exceeds its net realizable value ("NRV"), such as cases where prices have decreased, or inventories have spoiled or otherwise been damaged. The Company estimates the NRV of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

Fair value of financial assets and financial liabilities

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

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

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

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

Incremental borrowing rate for leases

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

Intangible assets

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

Determination of cash generating units

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

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

Impairment

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

Goodwill and indefinite-lived intangible assets

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

Income taxes

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

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

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

Share-based payment transactions and warrants

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

Compound financial instruments

The conversion feature and the warrants component of convertible debentures and convertible notes payable, and warrants denominated and exercisable in a foreign currency, are accounted for as derivative liabilities as their fair value is affected by changes in the fair value of the Company's SVS and in response to the changes in foreign exchange rates.

The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The conversion feature and warrant component of the convertible debentures and convertible notes payable, and warrants denominated and exercisable in a currency in other than the Company's functional currency, are required to be measured at fair value at each reporting period.

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

Provisions

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

Summary of Significant Accounting Policies

The accounting policies applied in the Company's unaudited condensed interim consolidated financial statements are the same as noted in its audited consolidated financial statements for the year ended December 31, 2019, unless otherwise noted below.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of bank balances held in the bank, funds held in trust with the Company's legal counsel (which is available on demand with no restrictions), and cash held at the Company's operating premises in Oregon and California. Cash equivalents include investments and deposits that mature within three months.

Adoption of New Accounting Policies

The Company adopted the following standards, effective January 1, 2020. These changes were made in accordance with the applicable transitional provisions:

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

IAS 1 and IAS 8 were amended in October, 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The adoption of these amendments did not have a material impact on the Company's unaudited condensed interim consolidated financial statements.

Conceptual Framework

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

Recent Accounting Pronouncements

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

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on its condensed interim consolidated financial statements.

Acquisitions

The Company completed three business acquisitions during the year ended December 31, 2019. The acquisitions of PMACC and SJW, and the RTO Transaction noted below were accounted for in accordance with IFRS 3 – *Business Combinations* ("IFRS 3"). The acquisition of SLWS was deemed to be an asset acquisition, not a business combination. A summary of the final accounting for the business acquisitions completed is as follows:

	PMACC/SJW	Lineage RTO	SLWS	Total
Acquisition Date	January 7, 2019	May 30, 2019	October 8, 2019	
Fair Value of Consideration Paid:				
Cash	$ -	$ -	$ 1,742,202	$ 1,742,202
Fair value of:				
Debt assumed/settled	27,749,246	1,576,342	2,028,073	31,353,661
Share capital issued	13,288,090	11,016,549	-	24,304,639
Options issued	-	128,305	-	128,305
Warrants issued	-	94,186	-	94,186
Contingent consideration	-	1,750,386	-	1,750,386
Total Consideration	$ 41,037,336	$ 14,565,768	$ 3,770,275	$ 59,373,379

	PMACC/SJW	Lineage RTO	SLWS	Total
Consideration paid	$ 41,037,336	$ 14,565,768	$ 3,770,275	$ 59,373,379
Fair value of net assets acquired:				
Cash	2,129,223	210,143	447	2,339,813
Accounts receivable	629,170	61,243	-	690,413
Biological assets	615,075	-	-	615,075
Inventories	2,854,662	84,101	-	2,938,763
Prepaid expenses	547,439	19,544	10,775	577,758
Investments and advances to unconsolidated affiliates	1,212,807	2,305,931	-	3,518,738
Property and equipment	1,165,436	-	1,796,230	2,961,666
Right-of-use assets	1,491,113	163,736	2,195,797	3,850,646
Intangible assets - licenses	51,800,000	239,970	2,005,137	54,045,107
Intangible assets - trademark	-	113,899	-	113,899
Deferred tax asset	-	107,399	-	107,399
Other assets	13,123	-	-	13,123
Accounts payable and accrued expenses	(6,787,382)	(699,756)	(42,314)	(7,529,452)
Derivative liabilities	-	(126,358)	-	(126,358)
Operating lease liabilities	(2,552,456)	(167,734)	(2,195,797)	(4,915,987)
Provisions	(34,176,000)	-	-	(34,176,000)
Convertible notes payable	-	(690,247)	-	(690,247)
Income tax payable	-	(39,727)	-	(39,727)
Deferred tax liability	(15,814,865)	(117,015)	-	(15,931,880)
Total Identifiable Net Assets	3,127,345	1,465,129	3,770,275	8,362,749
Goodwill	37,909,991	13,100,639	-	51,010,630
Net Assets Acquired	$ 41,037,336	$ 14,565,768	$ 3,770,275	$ 59,373,379

A. Acquisition of PMACC and SJW

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

On January 7, 2019, FLRish entered into the Merger Option Agreements with PMACC and SJW, providing FLRish with the Merger Options to purchase 100% of the equity interests of PMACC and SJW for 4,051,247 shares of FLRish's series B common stock (the "Series B Common Shares") plus the assumption of debt owed by PMACC and SJW. Of the $41,037,336 total consideration paid for PMACC and SJW, $27,749,246 represents settlement of pre-existing related party liabilities owed by PMACC and SJW to FLRish under previous operating agreements, and the $13,288,090 balance was paid in share capital. Pursuant to the terms of the Merger Option Agreements, FLRish had the right to exercise the Merger Options at any time until the termination date of September 27, 2023. The shares would be released to PMACC and SJW shareholders upon the completion of the merger, or at the termination of the Merger Option. If the Merger Option was not exercised prior to September 27, 2023, the Merger Option Agreements would terminate.

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

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

Pursuant to the RTO Transaction, Lineage and FLRish agreed to exercise the Merger Options relating to PMACC under the Merger Option Agreements to purchase 100% of each of PMACC and SJW after the RTO Transaction, whereby the Company obtained legal control over PMACC and SJW and the shares were issued to the former shareholders of PMACC and SJW. As a result of the exercise of the Merger Option granted under the Merger Option Agreements to acquire PMACC, the Company also indirectly acquired a 50% ownership interest in SLWS. In October 2019, the Company purchased the remaining 50% ownership in SLWS, making it a wholly owned subsidiary of Harborside.

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

As FLRish was a privately held company on January 7, 2019, the Company estimated the fair value of the equity consideration paid for the Merger Options as of January 7, 2019, the date the Merger Option Agreements were entered into. Primary reliance was placed on deriving the enterprise value and the Series B Common Share value from FLRish's October 2018 and November 2018 convertible debenture private placements (the "2018 Private Placements") for Series B Debenture Units (the "Series B Debenture Units") of FLRish (comprised of unsecured convertible debentures and warrants to acquire Series B Common Shares of FLRish), and performing a roll-forward analysis from October 30, 2018 to the January 7, 2019 valuation date. The valuation method used to value the shares was a hybrid method (the "Hybrid Method"), a blend of the Probability-Weighted Expected Return Method ("PWERM") and an option pricing

model ("OPM"), whereby the initial share price calibrated the value equal to the proceeds of the Series B Debenture Units. The following were the key assumptions:

(i) computed the probability-weighted Series B Common Share value across six initial public offerings ("IPO") scenarios yielding a weighted average range of implied exit prices for the Series B Common Share of $6.77 to $8.56 per share across the scenarios,

(ii) constructed an option pricing model analysis to estimate the value for the other non-IPO scenarios by benchmarking to the 2018 Private Placements to calculate the implied equity value of the Company using the option-pricing method of allocation and,

(iii) weighted the concluded stock values under each method based on management's best estimates of the probability of an IPO at 50%/50% IPO/non-IPO as of October 31, 2018 and 60%/40% IPO/non-IPO as of January 7, 2019.

A severance agreement with one of the former owners of PMACC and SJW was signed concurrent with the Merger Option Agreements and was effective immediately. This amount was not deemed to be part of the consideration paid in the acquisition. Approximately $600,000 of severance was expensed in the Company's consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

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

B. RTO Transaction

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

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

The $14,565,768 total consideration paid for Lineage is comprised of the following components that were measured at the estimated fair value on the date of closing of the RTO Transaction:

(i) 2,887,781 SVS, having an estimated fair value of $11,016,549 based on the fair value of shares issued in connection with closing of the RTO Transaction, inclusive of 1,070,670 SVS issued on conversion of the Series A Special Shares and 1,817,340 SVS issued in exchange for the Lineage Common Shares.

(ii) 134,232 options to acquire SVS, having an estimated fair value of $128,305, determined based on a Black Scholes option pricing model which incorporated the following assumptions: implied share price – $3.81 (C$5.15) per share based on the Concurrent Offering, Consolidation-adjusted exercise price of $3.10 to $7.74 (C$4.18 to $10.45), expected dividend yield – 0%, expected volatility – 90%, risk-free interest rate – 1.47% to 1.52% and expected life of 0.25 to 4.55 years. In making the assumptions for expected volatility, the Company used the estimated average volatility of comparable companies in the cannabis industry.

(iii) 308,662 warrants to acquire SVS, having an estimated fair value of $94,186, determined based on a Black Scholes option pricing model which incorporated the following assumptions: implied share price – $3.81 (C$5.15) per share, Consolidation-adjusted exercise price of $7.74 to $10.07 (C$10.45 to $13.59), expected dividend yield – 0%, expected volatility – 90%, risk-free interest rate – 1.71% and an expected life of 0.65 to 0.72 years. In making the assumptions for expected volatility, the Company used the estimated average volatility of comparable companies in the cannabis industry.

(iv) The effective settlement of a pre-existing relationship related to the bridge loan payable to Harborside by Lineage of $1,576,342.

(v) The contingent consideration in the amount of $1,750,386, classified under Shareholders' Equity, is related to the stock dividend declared by Lineage to the holders of its common shares (the "Lineage Common Shares") as at the record date of May 23, 2019, through the issuance of 11,513,533 series B special shares of Lineage (the "Series B Special Shares") and 14,072,120 series C special shares of Lineage (the "Series C Special Shares"). Pursuant to the Merger Agreement", the Series B Special Shares would be automatically converted into one Lineage Common Share upon the completion of the LUX Acquisition. Similarly, the Series C Special Shares would be converted into one Lineage Common Share upon the completion of the acquisition of Walnut Oaks, LLC, d/b/a Agris Farms (the "Agris Acquisition"). In both instances, the conversion would not require the payment of additional consideration or any further action from the holder. If the LUX Acquisition was terminated by the Company other than for failure to receive regulatory approval prior to the 180th day after the completion of the RTO Transaction, the discovery of an undisclosed material adverse effect of at least 10% of the total applicable purchase price, or the amount of the consideration for the purchase being in excess of the amounts set forth in the Merger Agreement, each Series B Special Share will be automatically converted to one Lineage Common Share on the date of the termination of the acquisition. If the Agris Acquisition was terminated other than for the same aforementioned reasons, each Series C Special Share will be automatically converted to one Lineage Common Share on the date of the termination of the acquisition. Both Series B Special Shares and C Special Shares have an automatic redemption clause (price of C$0.000001) that will be triggered unless all of the Series B Special Shares and C Special Shares have otherwise been converted on or prior to 180 days from the closing of the RTO Transaction.

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

As of June 30, 2020, the Company had not completed either of the acquisitions. The time limit of 180 days since the RTO Transaction for the automatic redemption clause lapsed as of November 26, 2019. As the time period of 180 days had lapsed, the Series B Special Shares and Series C Special Shares are considered to have been automatically redeemed and cancelled at a redemption price of C$0.000001 per share. Per IFRS 3, contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.

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

C. Acquisition of SLWS

SLWS was formed on September 28, 2015 as a premier indoor clone cultivator, with the intention of launching a cannabis dispensary in San Leandro, California. The project was under construction until December 31, 2019.

On January 7, 2019, as part of the PMACC acquisition, Harborside acquired a 50% ownership interest in SLWS. The Company estimated the fair value of this investment on January 7, 2019 using a discounted cash flow method to arrive at an indicated fair value of the business. After adjustments for debt, a 10% discount for lack of control and a 23% discount for lack of marketability were applied to arrive at the fair value estimate of the 50% equity investment. The fair value of the investment was estimated to be $160,000. In addition, SLWS owed PMACC $1,057,807, which has been recorded at carrying value as of January 7, 2019.

On October 8, 2019, Harborside acquired the remaining 50% equity interest in SLWS. Of the $3,770,275 total consideration paid, $2,028,073 represents settlement of pre-existing related party liabilities owed by SLWS to Harborside for advances paid to finance the construction of the project and the balance of $1,742,202 was paid in cash. As SLWS did not meet the definition of a business under IFRS 3, the acquisition was accounted for as an asset acquisition and the total consideration paid was allocated to the assets acquired and no residual goodwill was recognized.

The estimated fair value of acquired intangible assets includes a cannabis dispensary permit of $2,005,137. The key assumptions used in estimating fair value of the intangible asset relate to management's five-year projections, estimated long-term growth, and an after-tax discount rate applicable to the intangible assets estimated at approximately 17%. The discount rate incorporates the risk-free rate as well as risks and uncertainties associated with the projected operations.

Proposed Transaction

Altai Partners, LLC

On May 30, 2019, as part of the RTO Transaction, the Company acquired from Lineage advances previously made toward the LUX Acquisition with an estimated fair value of $1,729,463, which included accrued interest of $94,463. As the former Lineage management was in negotiations with the seller at the time of the RTO transaction with the expectation that the LUX Acquisition was to close shortly after the RTO Transaction, it was assessed that no additional impairment was needed at the time. These advances were made pursuant to a binding LOI in relation to the LUX Acquisition that was entered into by Lineage on March 28, 2018. Altai had an agreement in place, dated March 15, 2018, to acquire a 45% interest in LUX, a licensed dispensary operating in San Jose.

Further to the above agreement, on March 28, 2018, Altai entered into an additional agreement to acquire the remaining 55% ownership interest in LUX. Accordingly, the Company would acquire an indirect 100% ownership interest in LUX through its purchase of a 100% interest in Altai. The purchase price for the LUX Acquisition is $5,400,000, payable on or prior to closing, comprised of: $1,200,000 payable in cash, $750,000 in a promissory notes and $3,450,000 payable by the issuance of SVS in the capital of the Company.

In addition, pursuant to the terms of the LUX Acquisition:

(a) $750,000 will be lent to Altai under promissory notes bearing at 12% annual interest. The promissory notes will become loans to subsidiary after completion of the LUX Acquisition; and
(b) The Company, under its ownership of Altai, will assume $1,200,000 in payment obligations towards Altai's purchase of LUX. This obligation includes four cash payments to LUX shareholders of $300,000 each.

As at June 30, 2020, the Company had advanced total funds of $1,800,000 to Altai, comprised of:

(i) Total advances of $1,050,000; and
(ii) Funds of $750,000 in the form of two promissory notes, issued at $250,000 and $500,000, respectively. These promissory notes will become a loan to subsidiary after completion of the LUX Acquisition. Should the LUX Acquisition not ultimately close, the advances will be repaid to the Company.

All funds advanced were prior to the RTO Transaction.

Though the Company hopes to close the LUX Acquisition, there is currently uncertainty with respect to the ultimate outcome and timing.

Issued and Outstanding Share Capital

As at June 30, 2020, the Company had the following securities issued and outstanding or issuable in connection with potential transactions:

Designation of Securities	Number of Underlying SVS
Subordinate Voting Shares	21,221,847
Multiple Voting Shares	21,577,206
Series B Special Shares	275,325
Series C Special Shares	336,508
Options	3,996,150
Contingent Stock Grants	769,000
Warrants	6,814,710
Broker Warrants	453,714

Convertible Debts	58,492
Shares issuable to vendors in LUX Acquisition	430,315
Shares issuable to finders in LUX Acquisition	20,046
Shares issuable to vendors in Agris Acquisition	606,958
Convertible Debt for assumption of Agris Acquisition	251,087
Warrants issuable for Agris Acquisition	221,920
Shares issuable to FMICA as advisory fee	118,543
Total Fully Diluted Share Capital	**57,151,821**

As at August 31, 2020, the Company had the following securities issued and outstanding or issuable in connection with potential transactions:

Designation of Securities	**Number of Underlying SVS**
Subordinate Voting Shares	21,221,847
Multiple Voting Shares	21,577,206
Series B Special Shares	275,325
Series C Special Shares	336,508
Options	3,996,150
Contingent Stock Grants	235,000
Warrants	6,814,710
Broker Warrants	453,714
Convertible Debts	58,492
Shares issuable to vendors in LUX Acquisition	430,315
Shares issuable to finders in LUX Acquisition	20,046
Shares issuable to vendors in Agris Acquisition	606,958
Convertible Debt for assumption of Agris Acquisition	251,087
Warrants issuable for Agris Acquisition	221,920
Shares issuable to FMICAI as advisory fee	118,543
Total Fully Diluted Share Capital	**56,617,821**

Provisions

IRC Section 280E

Certain subsidiaries of the Company operate in the cannabis industry and are subject to IRC Section 280E, which prohibits businesses engaged in the trafficking of controlled substances (including cannabis as specified in Schedule I of the FCSA) from deducting normal business expenses associated with the sale of cannabis. This can result in permanent tax differences resulting from ordinary and necessary business expenses which are deemed non-allowable under IRC Section 280E. Many of the central issues relating to the interpretation of Section 280E remain unsettled, and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E). IFRIC 23 – *Uncertainty over Income Tax Treatments* ("IFRIC 23") provides guidance that adds to the requirements in IAS 12 – *Income Taxes* ("IAS 12") by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the positions taken by the IRS and the findings of the Tax Court, the Company has determined that a reserve for an uncertain tax position should be recorded for all years subject to statutory review. Though the Company is actively appealing the Tax Court decision that was issued on November 29, 2018, an uncertain tax position has been recorded based on the unknown outcome of the case. As of June 30, 2020, the reserve totaled approximately $37.4 million (December 31, 2019 – $36.5 million), a sum which includes the separate tax proceedings described below. The Company does not currently expect any of the cases described below, any resultant potential liabilities, or any possible payments resulting from the cases to be resolved within 12 months of the issuance date of the financial statements.

PMACC

PMACC is currently involved in two separate tax proceedings. The first, *PMACC v. Commissioner*, is an appeal to the United States Court of Appeals for the Ninth Circuit of an adverse Tax Court decision that was issued on November 29, 2018. In that decision, the Tax Court disallowed PMACC's allocation of certain items of expense to cost of goods sold, holding that they were instead deductions barred by IRC Section 280E. At issue are PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012. The court held that the expenses were ordinary and substantiated business expenses but, because PMACC's business consists of trafficking in a Schedule I controlled substance, the expenses must be disallowed. On October 21, 2019, after a review process under Rule 155, the Tax Court determined that PMACC's total liability was $11,013,237 plus accrued interest. In its ruling, the Tax Court rejected the assertion of penalties by the IRS, finding that the unsettled state of the law and the fact that PMACC acted reasonably and in good faith, meant that penalties under IRC 6661(a) would be inappropriate. Accordingly, management has not included penalties in the estimated provision at period-end.

In December 2019, PMACC appealed the Tax Court decision to the US Court of Appeals for the Ninth Circuit, which is expected to hear the case in the fourth quarter of 2021.

In a second Tax Court proceeding related to deductions barred by IRC Section 280E, the IRS issued a notice of deficiency asserting that PMACC owes $16,035,218 in additional taxes and penalties for fiscal 2016, by disallowing all deductions. The Company filed its initial petition in this case to the Tax Court on February 13, 2020. This matter is not expected to be heard on its merits for several years, by which time the Company expects that the Ninth Circuit appeal mentioned above will have been decided and will presumably dictate the outcome of this proceeding.

SJW

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

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

Commitments and Contingencies

IRC Section 280E

Many of the central issues relating to the interpretation of Section 280E remain unsettled, and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E) that have never been addressed by any Treasury regulation or court case. IFRIC 23 provides guidance that adds to the requirements in IAS 12 specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the IRS and Tax Court, determined that a reserve for an uncertain tax position should be recorded. As of June 30, 2020, the reserve totaled approximately $37.4 million (December 31, 2019 – $36.5 million).

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

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

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

The claims are in the discovery phase and the Court set a trial date for June 18, 2021. The former employee is claiming $1,125,000 in damages. The Company believes that the facts and causes of action as alleged by the former employee are without merit, and that the Company also has meritorious defenses to the causes of action alleged by the former employee.

Separation agreement

On October 25, 2019, pursuant to the terms of a separation agreement dated October 25, 2019, between the Company and its former CEO Mr. Andrew Berman (the "Separation Agreement"), the former CEO received a severance package of $310,000, less all applicable withholdings and deductions, to be paid in equal monthly installments beginning on the Company's first regularly scheduled payroll date following the date on which the Separation Agreement becomes irrevocable, with the remaining monthly installments paid consistent with the Company's current payroll practices on regularly scheduled payroll dates thereafter, acceleration of any balance to be paid in a lump sum no later than July 2020. The Company further agreed to pay the cost of COBRA premiums with respect to the Company's paid health, dental and vision coverage for Mr. Berman and his dependents for 12 months. Lastly, the Company agreed to the vesting of all of Mr. Berman's unvested stock options issued through to the last day of employment, and in particular, 534,000 restricted stock options; and 200,000 stock options granted April 25, 2018 in two awards (one for 150,000 stock options and another for 50,000 stock options, both exercisable at a price of $4.15 per share) of which 112,500 have already vested.

Mediation with former employee

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

Gia Calhoun v. FLRish, Inc.

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

Court's order the parties filed a joint status report on July 13, 2020. On July 17, 2020, the parties appeared before the Court for a case management conference. In the interim, the Supreme Court granted review on the issue of what constitutes an ATDS in the Duguid v. Facebook petition, and the Company subsequently proposed that the Court extend the stay until the Supreme Court issues a decision on Facebook's petition. At the case management conference on July 17 the Court ruled:

1. No class-related discovery is permitted
2. Within the next 90 days, the Company may take discovery on plaintiff's DNC claim
3. Within the next 90 days, plaintiff may take discovery on the issue of whether an ATDS was used to call Plaintiff. However, the court expressly ruled that the parties may not engage in any expert discovery on the ATDS issue.

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

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

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

Employment agreements

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

Off-Balance Sheet Arrangements

As at June 30, 2020 and the date of this MD&A, 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.

Subsequent Events

COVID-19

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

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

Some of the measures that Harborside initiated included: (i) increasing curbside pick-up and/or drive-thru options at all of its retail locations; (ii) expanding home delivery services to customers located in Oakland, San Jose, and the Greater East Bay and Peninsula areas; and (iii) updating its safety and sanitation protocols in-store. The Company also emphasized its continued efforts to align labor costs with customer demand, cut all non-essential operational expenses, hold off on any non-accretive operational and capital projects, and suspend all non-essential supplier contracts.
As of the issuance of this report, the Company's operations have not been significantly impacted as cannabis has been deemed an essential service in the states of California and Oregon since March 2020. At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations and financial condition.

Cease Trade Order

On June 8, 2020, the OSC issued the CTO which prevents trading in the Company's SVS until after it has filed: (i) its Outstanding Annual Filings, and (ii) the Q1 2020 Filings.

On August 10, 2020, the Company filed the Outstanding Annual Filings. On August 25, 2020, the Company filed the Q1 2020 Filings, and applied to the OSC to have the CTO revoked. The Company expects trading to resume on the CSE shortly after the revocation of the CTO. While the Company has made the application, there is no assurance that the OSC will grant the revocation order.

Risk Factors

The Company faces exposure to risk factors and uncertainties relating to its business that could significantly negatively impact the Company's operations and financial results. Additional risks and uncertainties not presently known to the Company or currently deemed immaterial by the Company may also impair the Company's operations. If any such risks actually occur, shareholders of the Company could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Company could also be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected. Significant business risk factors related to the business of the Company are described below and in the Company's Listing Statement dated May 30, 2019, under the heading "Risk Factors"; and in the Company's other public filings, all of which are available under the Company's SEDAR profile at www.sedar.com.

The following is a summary of certain risk factors that could be applicable to the business of the Company:

US Federal Laws pertaining to cannabis

Cannabis is illegal under US federal laws and enforcement of relevant laws is a significant risk. The business operations of the Company are dependent on state laws pertaining to the cannabis industry. Continued development of the cannabis industry is dependent upon continued legislative authorization of cannabis at the state level. Any number of factors could slow or halt progress in this area. Further progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of cannabis, which would negatively impact the business of the Company.

The concepts of "medical", "retail" or "adult-use" cannabis do not exist under US federal law. The FCSA classifies marijuana as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision. As such, cannabis-related practices, or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under US federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under US federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company.

Violations of any US federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the US federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, asset forfeiture, cessation of business activities or divestiture. This could have a material adverse effect on the operations and financial position of

the Company, including (but not limited to) its ability to conduct business, material loss of profitability or liquidity, or material reduction in the market price of the Company's publicly-traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation or adjudication of any such matters, as the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

At present, 33 states, the District of Columbia and Guam allow their residents to use medical cannabis. Voters in the states of Colorado, Washington, Oregon, Alaska, California, Nevada, Massachusetts, and Maine have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The state laws are in conflict with the FCSA, which makes cannabis use and possession illegal at the federal level. The Obama Presidential administration has previously made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical cannabis. However, there is no assurance that the current Trump Presidential administration will not change the federal government's stated policy regarding the low priority of enforcement of federal laws and decide to enforce the federal laws to the fullest extent possible. Any such change in the US federal government's enforcement of current federal laws could cause significant financial and operational damage to the Company and its stockholders, including the potential exposure to criminal liability.

The constant evolution of laws and regulations affecting the cannabis industry could detrimentally affect the Company's operations. Local, state, and federal medical cannabis laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and may ultimately require the Company to alter its business plan, or to discontinue business operations entirely. Furthermore, violations of these laws, or even alleged violations, could materially disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations, or applications, and it is possible that regulations may be enacted in the future that will be materially detrimental to the business of the Company.

Local, state, and federal laws in the US

The rulemaking process for cannabis operators at the state level in any state will be ongoing and result in frequent changes. As a result, a compliance program is essential to manage regulatory risk. All operating policies and procedures implemented in the operation will be compliance-based and derived from the state regulatory structure governing ancillary cannabis businesses and their relationships to state-licensed or permitted cannabis operators, if any. Notwithstanding the Company's efforts, regulatory compliance, and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that the Company will receive the requisite licenses, permits or cards to operate its businesses, or that the financial cost of the procurement of such licenses will not be material.

In addition, local laws and ordinances could restrict the Company's business activity. Although legal under the laws of the states in which the Company's business will operate, local governments have the ability to limit, restrict, and ban cannabis businesses from operating within their jurisdiction. Land use, zoning, local ordinances, and similar laws could be adopted or changed, and could have a material adverse effect on the Company's business.

The Company is aware that multiple states are considering special taxes or fees on businesses operating in the cannabis industry. It is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. This implementation of such special taxes or fees on the Company could have a material adverse effect upon the Company's business, results of operations, financial condition, or prospects.

Legality of cannabis could be reversed in one or more states of operation

The voters or legislatures of states in which cannabis has been legalized could potentially repeal applicable laws which permit both the operation of medical and retail cannabis businesses. These actions might force the Company to cease some or all of the Company's business.

If no additional US states, territories or other countries allow the legal use of cannabis, or if one or more jurisdictions which currently allow it were to reverse position, the Company may not be able to grow, or the market for the Company's

products and services may decline. There can be no assurance that the number of jurisdictions which allow the use of cannabis will grow, and if it does not, there can be no assurance that the existing jurisdictions will not reverse position and disallow such use. If either of these events were to occur, not only would the growth of the Company's business be materially impacted in an adverse manner, but the Company may experience declining revenue as the market for the Company's products and services declines.

Local regulations could change and negatively impact the Company's operations

Most US states that permit cannabis for adult-use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult-use cannabis businesses in their jurisdictions. If local municipalities where the Company or its Licensed Operators have established facilities decide to prohibit cannabis businesses from operating, the Company or its Licensed Operators could be forced to relocate operations at great cost to the Company, and the Company or its Licensed Operators may have to cease operations in such state entirely if alternative facilities cannot be secured.

Regulations may hinder the Company's ability to establish and maintain bank accounts, materially affecting the finances and operations of the Company

On September 26, 2019, the US federal House of Representatives passed the SAFE Banking Act. This bill generally prohibits a federal banking regulator from penalizing a depository institution for providing banking services to a legitimate cannabis-related business. Specifically, the bill prohibits a federal banking regulator from (i) terminating or limiting the deposit insurance or share insurance of a depository institution solely because the institution provides financial services to a legitimate cannabis-related business; (ii) prohibiting or otherwise discouraging a depository institution from offering financial services to such a business; (iii) recommending, incentivizing, or encouraging a depository institution not to offer financial services to an account holder solely because the account holder is affiliated with such a business; (iv) taking any adverse or corrective supervisory action on a loan made to a person solely because the person either owns such a business or owns real estate or equipment leased or sold to such a business; or (v) penalizing a depository institution for engaging in a financial service for such a business.

As specified by the bill, a depository institution or a Federal Reserve bank shall not, under federal law, be liable or subject to forfeiture for providing a loan or other financial services to a legitimate cannabis-related business.

The bill was received in the Senate on September 26, 2019 and has been referred to the Senate Committee on Banking, Housing, and Urban Affairs.

Notwithstanding that a majority of states have legalized medical cannabis, and the US House's passage of the SAFE Banking Act, the SAFE Banking Act has not been enacted into law, and there has been no change in US federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that US federal government maintains sole jurisdiction over federally-chartered banks and financial institutions, and that federal law provides that the production and possession of cannabis is illegal under the FCSA, federally-chartered banks cannot accept funds for deposit from businesses involved with the cannabis industry. To date, fewer than 800 banks and credit unions in the US offer financial services to the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty accessing the US banking system and traditional financing sources. This lack of access may make it difficult for the Company to maintain cash holdings and liquidity, and there can be no assurance that this will not result in a material adverse effect on the Company's finances, operations, or liquidity.

The US federal prohibitions on the sale of cannabis may result in cannabis manufacturers and retailers being restricted from accessing the US banking system and they may be unable to deposit funds in federally chartered banking institutions. While the Company does not anticipate dealing with banking restrictions directly relating to its business, banking restrictions could nevertheless be imposed due to the Company's banking institutions not accepting payments from Licensed Operators. Licensed Operators at times do not have deposit services and are at risk that any bank accounts they have could be closed at any time. Such risks increase costs to the Company and Licensed Operators. Additionally, similar risks are associated with large amounts of cash at cannabis businesses. These businesses require enhanced security with respect to holding and transport of cash, whether or not they have bank accounts.

In the event that financial service providers do not accept accounts or transactions related to the cannabis industry, it is possible that Licensed Operators may seek alternative payment solutions, including but not limited to crypto currencies such as Bitcoin. There are risks inherent in crypto currencies, most notably its volatility and security issues.

If the industry was to move towards alternative payment solutions and accept payments in crypto currency the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

Uncertainty related to the regulation of vaporization products and certain other consumption accessories

The Company is engaged in distributing vaporizer hardware and cannabis-related accessories. However, there is uncertainty regarding whether, in what circumstances, how and when the FDA will seek to enforce regulations under the Tobacco Control Act (US) (the "TCA") relative to vaporizer hardware and accessories that can be used to vaporize cannabis and other material, including electronic cigarettes, rolling papers and glassware, in light of the potential for dual use with tobacco. The TCA, enacted in 2009, established by statute that the FDA has oversight over specific types of tobacco products (cigarettes, cigarette tobacco, roll-your-own tobacco, and smokeless tobacco), and granted the FDA the authority to "deem" other types of tobacco products as subject to the statutory requirements.

In addition to establishing authority, defining key terminology, and setting adulteration and misbranding standards, the TCA established authority over tobacco products in a number of areas such as: submission of health information to the FDA; registration with the FDA; requirements prior to marketing products; good manufacturing practice requirements; tobacco product standards; notification, recall, corrections, and removals; records and reports; marketing considerations and restrictions; post-market surveillance and studies; labeling and warnings; and record keeping and tracking.

In December 2010, the US Court of Appeals for the D.C. Circuit held that the FDA is permitted to regulate vaporizer devices containing tobacco-derived nicotine as "tobacco products" under the TCA. In a final rule effective August 8, 2016, the FDA "deemed" all products that meet the TCA's definition of "tobacco product," including components and parts but excluding accessories of the newly deemed products, to be subjected to the tobacco control requirements of the Food, Drug, and Cosmetic Act and the FDA's implementing regulations. This includes among other things: products such as electronic cigarettes, electronic cigars, electronic hookahs, vape pens, vaporizers and e-liquids and their components or parts (such as tanks, coils and batteries) (hereinafter referred to as "Electronic Nicotine Delivery Systems").The FDA's interpretation of components and parts of a tobacco product includes any assembly of materials intended or reasonably expected to be used with or for the human consumption of a tobacco product. In a 2017 decision of the D.C. Circuit, the court upheld the FDA's authority to regulate the Electronic Nicotine Delivery Systems even though they do not actually contain tobacco, and even if the products could be used with nicotine-free e-liquids. The TCA and implementing regulations restrict the way tobacco product manufacturers, retailers, and distributors can advertise and promote tobacco products, including a prohibition against free samples or the use of vending machines, requirements for presentation of warning information, and age verification of purchasers.

In light of the laws noted above, the Company anticipates that authorizations will be necessary in order for it to continue its distribution of certain vaporizer hardware and accessories that can be used to vaporize cannabis and other material. The TCA compliance dates vary depending upon type of application submitted, but all newly-deemed products that were marketed before August 8, 2016 will require an application no later than August 8, 2021 for "combustible" products (e.g. cigar and pipe), and August 8, 2022 for "non-combustible" products (e.g. vapor products), unless the FDA grants extensions to these compliance periods. Products entering the market after August 8, 2016 are not covered by the FDA compliance policy described above and will be subject to enforcement if marketed without authorization. We expect our suppliers to timely file for the appropriate authorizations to allow us to sell their products in the US. However, the Company has no assurance that the outcome of such processes will result in these products receiving marketing authorizations from the FDA. Furthermore, if the FDA establishes regulatory processes that our suppliers are unable or unwilling to comply with, our business, results of operations, financial condition and prospects could be adversely affected. The anticipated costs to our suppliers of complying with future FDA regulations will be dependent on the rules issued by the FDA, the timing and clarity of any new rules or guidance documents, incorporating these rules, the reliability and simplicity (or complexity) of the electronic systems utilized by the FDA for information and reports to be submitted, and the details required by the FDA for such information and reports with respect to each regulated product (which have yet to be issued by the FDA). Any failure to comply with existing or new FDA

regulatory requirements could result in significant financial penalties to us or our suppliers, which could ultimately have a material adverse effect on our business, results of operations, financial condition and ability to market and sell our products. Compliance and related costs could be substantial and could significantly increase the costs of operating in the vaporization products and certain other consumption accessories markets. In addition, failure to comply with the TCA and with FDA regulatory requirements could result in litigation, criminal convictions or significant financial penalties and could impair our ability to market and sell some or all of our vaporizer products.

At present, we are not able to predict whether the TCA will impact our business to a greater degree than competitors in the industry, thus affecting our competitive position. There has also been increasing activity on the state and local levels with respect to scrutiny of vaporizer products. State and local governmental bodies across the US have indicated that vaporization products and certain other consumption accessories may become subject to new laws and regulations at the state and local levels. For example, in January 2015, the California Department of Health declared electronic cigarettes and certain other vaporizer products a health threat that should be strictly regulated like tobacco products. Further, some states and cities, including the State of Iowa, have enacted regulations that require retailers to obtain a tobacco retail license in order to sell electronic cigarettes and vaporizer products. Many states and cities have passed laws restricting the sale of electronic cigarettes and certain other vaporizer products. If one or more states from which we generate or anticipate generating significant sales of vaporizer products move to regulate the sale of vaporizer products such that we are required to obtain certain licenses, approvals or permits, and if we are not able to obtain the necessary licenses, approvals or permits for financial reasons or otherwise and/or any such license, approval or permit is determined to be overly burdensome to us, then we may be required to cease sales and distribution of our vaporizer products to those states, which could have a material adverse effect on our business, results of operations and financial condition.

Certain states and cities have already restricted the use of electronic cigarettes and vaporizer products in smoke-free venues. Additional city, state and federal regulators may enact rules and regulations restricting the use of electronic cigarettes and vaporizer products in those same places where cigarettes cannot be smoked. Because of these restrictions, our customers may reduce or otherwise cease using our vaporization products or certain other consumption accessories, which could have a material adverse effect on our business, results of operations and financial condition. At the state level, over 25 US states have implemented statewide regulations that prohibit vaping in public places. Some cities have also implemented more restrictive measures than their state counterparts, such as San Francisco, which in June 2018 approved a new ban on the sale of flavored tobacco products, including vaping liquids and menthol cigarettes. There may in the future also be increased regulation of additives in smokeless products and internet sales of vaporization products and certain other consumption accessories. The application of any new laws or regulations which may be adopted in the future at a federal, state, provincial or local level to vaporization products, consumption accessories or such additives could result in additional expenses and require us to change our advertising and labeling, and methods of marketing and distribution of our products, any of which could have a material adverse effect on our business, results of operations and financial condition.

Lack of access to US Bankruptcy Protections

Because the use and distribution of cannabis is illegal under US federal law, many US federal courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company was to experience a bankruptcy, there is no guarantee that US federal bankruptcy protections would be available to the Company's US operations, which would have a material adverse effect on the Company, its lenders, and other stakeholders.

Heightened scrutiny by Canadian regulatory authorities

The Company's existing operations in the US, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the United States. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate or invest in the US or any other jurisdiction.

In 2017, there were concerns that the Canadian Depository for Securities Limited, through its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), Canada's central securities depository, would refuse to settle trades for cannabis

issuers that have investments in the US. However, The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the US, and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the CSA and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSXV. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the US. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the US. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented at a time when the Subordinate Voting Shares are listed on a stock exchange, it would have a material adverse effect on the ability of holders of Subordinate Voting Shares to make and settle trades. In particular, the SVS would become highly illiquid until an alternative was implemented, investors would have no ability to affect a trade of the Subordinate Voting Shares through the facilities of the applicable Canadian stock exchange.

US border crossing

Investors in the Company and the Company's directors, officers and employees may be subject to travel and entry bans into the US. Recent media articles have reported that certain Canadian citizens have been rejected for entry into the US due to their involvement in the cannabis sector.

The majority of persons traveling across the Canadian and US border do so without incident, whereas some persons are simply barred entry one time. The US Department of State and the Department of Homeland Security have indicated that the US has not changed its admission requirements in response to the legalization in Canada of recreational cannabis, but anecdotal evidence indicates that the US may be increasing its scrutiny of travelers and their cannabis related involvement.

Admissibility to the US may be denied to any person working or "having involvement in" the cannabis industry, according to US Customs and Border Protection. Inadmissibility in the US implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver. If any of the Company's directors, officers or other service providers from Canada are denied entry into the US, such action may have a material adverse effect on the Company's operations and finances.

Travel restrictions associated with COVID-19

The transmission of COVID-19 and efforts to contain its spread have recently resulted in international, national and local border closings, travel restrictions, significant disruptions to business operations, supply chains and customer activity and demand, service cancellations, reductions and other changes, and quarantines, as well as considerable general concern and uncertainty.

The overall severity and duration of COVID-19 related impacts on the Company will depend on future developments which cannot currently be predicted, including directives of government and public health authorities, the speed at which suppliers and logistics providers can return to full production, the status of labor availability, the ability to staff operations and facilities, and the impact of supplier prioritization of order backlogs. Even after the COVID-19 outbreak has subsided, the Company may continue to experience material adverse effects to its businesses as a result of the global economic impact of COVID-19, including any related economic recession or retraction, as well as lingering impacts on demand for, or oversupply of, our products, our suppliers, third-party service providers and/or customers.

There are risks associated with the removal of US Federal Budget Rider Protections

The US Congress has passed appropriations bills (the "Leahy Amendment" and the "Joyce Amendment") each of the last several years to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical cannabis businesses operating in compliance with state and local laws. The

2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the Leahy Amendment. It continued in effect until September 30, 2018, the last day of fiscal year 2018. These protections were subsequently extended through December 21, 2018 as part of a short-term continuation of appropriations. Subsequently, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with the Joyce Amendment intact (Section 538).

On June 20, 2019, the House voted 267 in favor of, and 165 against, approving a broader amendment that in addition to protecting state medical cannabis programs also protected recreational use. On September 26, 2019, the Senate Appropriations Committee declined to take up the broader amendment but did approve the Joyce Amendment for the 2020 fiscal year spending bill. On September 27, 2019, the Joyce Amendment was renewed as part of a stopgap spending bill, in effect through November 21, 2019.

On December 20, 2019, the amendment was renewed by the US federal government through the passage and signing of fiscal year 2020 spending legislation, effective through to September 30, 2020.

US courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable state law. However, because this conduct continues to violate US federal law, US courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with applicable state law – could be prosecuted for violations of US federal law. If the US federal government restores funding, the US federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the FCSA's five-year statute of limitations. There can be no assurance that the US federal government will not restore such funding, and the restoration of such funding may have material adverse materials effects on the Company's operations and finances.

Additional financing

The Company believes that its raised capital is sufficient to meet its presently anticipated working capital and capital expenditure requirements for the near future. This belief is based on its operating plan, which in turn is based on assumptions that may prove to be incorrect. In addition, the Company may need to raise significant additional funds sooner to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated opportunities. If its financial resources are insufficient, it will require additional financing to meet its plans for expansion. The Company cannot be sure that additional financing, if needed, will be available on acceptable terms, or at all. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility with respect to business matters. If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, and Company shareholders may experience additional dilution in net book value. Furthermore, the issuance of such new equity securities may have rights, preferences, or privileges senior to those of its existing shareholders. If adequate funds are not available on acceptable terms or at all, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities, repay debt obligations as they become due, or respond to competitive pressures, any of which could have a material adverse effect on its business, prospects, financial condition, and results of operations.

Volatile financial and economic conditions

Current global financial and economic conditions remain extremely volatile. An economic downturn of global capital markets has been shown to make raising capital by equity or debt financing more difficult, and in general, negatively impacts overall share prices and market conditions. Global equity markets have experienced significant volatility and weakness as a result of the COVID-19 outbreak. Such volatility and weakness in the global economy (and equity markets more specifically) may adversely affect the Company's ability to raise necessary capital.

Access to public and private capital and financing also continues to be negatively impacted by many factors, particularly in the cannabis sector. Such factors may also impact the Company's ability to obtain financing in the future on favorable terms or obtain any financing at all. Additionally, global conditions may cause a long-term decrease in asset values. If such volatility and market turmoil continue, the Company's operations and financial condition could be adversely impacted.

Unfavorable tax treatment of cannabis businesses

Under Section 280E of the US Tax Code, no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the FCSA) which are prohibited by federal law or the law of any state in which such trade or business is conducted. This provision has been applied by the IRS to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Section 280E therefore has a significant impact on the Company's retail sale of cannabis. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its US income tax expenses.

Entities with which the Company does business, including entities owned, controlled or managed by the Company, may from time to time be disputing and in litigation with the IRS related to any IRS determination that certain expenses of cannabis businesses are not permitted tax deductions under Section 280E. As such, it is possible that the Company could be found to have significant tax liabilities under Section 280E that may become due and payable to the IRS. The Company may not have sufficient reserves to satisfy any such possible future liabilities. Such liabilities would therefore likely result in material adverse effects to the Company's business operations and financial condition.

If the Company's overall business is deemed to be subject to Section 280E of the US Tax Code because of the business activities of the companies over which we exercise control, the resulting disallowance of tax deductions could cause it to incur US federal income tax, which would have a material adverse effect on the Company's business

Section 280E of the US Tax Code provides that, with respect to any taxpayer, no deduction or credit is allowed for expenses incurred during a taxable year "in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the FCSA which is prohibited by federal law or the law of any state in which such trade or business is conducted". Because cannabis is a Schedule I controlled substance under the FCSA, Section 280E by its terms applies to the purchase and sale of cannabis products.

With respect to Harborside Oakland and Harborside San Jose, the IRS has taken the position that Section 280E prohibits both such entities from taking certain expense deductions. Each entity is currently disputing the application of Section 280E to its business with the IRS. If the IRS were to take the position that through our business operations and in particular control of these entities, the Company is primarily or vicariously liable under federal law for "trafficking" a Schedule I substance (cannabis) under section 280E of the US Tax Code or for any other violations of the FCSA, the IRS may seek to apply the provisions of Section 280E to our company and disallow certain tax deductions, including for employee salaries, depreciation or interest expense. If such tax deductions are disallowed, this would result in a material adverse effect to our financial results. As the Company may become engaged in the purchase and/or sale of a controlled substance through the operations of subsidiaries which they may acquire that are operating dispensaries and a cultivation facility, its potential subsidiaries may be subject to the disallowance provisions of Section 280E. In addition, there is no assurance that the IRS will not take a position that the entire business is subject to Section 280E limitations in the future.

US tax classification

The Company, which is a Canadian corporation, generally would be classified as a non-US corporation under general rules of US federal income taxation. Section 7874 of the US Tax Code, however, contains rules that can cause a non-US corporation to be taxed as a US corporation for US federal income tax purposes. Under Section 7874 of the US Tax Code, a corporation created or organized outside the US (i.e., a non-US corporation) will nevertheless be treated as a US corporation for US federal income tax purposes (such treatment is referred to as an "Inversion") if each of the following three conditions are met (i) the non-US corporation acquires, directly or indirectly, or is treated as acquiring under applicable US Treasury Regulations, substantially all of the assets held, directly or indirectly, by a US corporation, (ii) after the acquisition, the former stockholders of the acquired US corporation hold at least 80% (by vote or value) of the shares of the non-US corporation by reason of holding shares of the US acquired corporation, and (iii) after the acquisition, the non-US corporation's expanded affiliated group does not have substantial business activities in the non-US corporation's country of organization or incorporation when compared to the expanded affiliated group's total business activities (clauses (i) – (iii), collectively, the "Inversion Conditions").

For this purpose, "expanded affiliated group" means a group of corporations where (i) the non-US corporation owns stock representing more than 50% of the vote and value of at least one member of the expanded affiliated group, and (ii) stock representing more than 50% of the vote and value of each member is owned by other members of the group. The definition of an "expanded affiliated group" includes partnerships where one or more members of the expanded affiliated group own more than 50% (by vote and value) of the interests of the partnership.

The Company intends to be treated as a US corporation for US federal income tax purposes under Section 7874 of the US Tax Code and is expected to be subject to US federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the US Tax Code, to be treated as a Canadian resident company (as defined in the *Income Tax Act* (Canada)) (the "ITA") for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the US which could have a material adverse effect on its financial condition and results of operations.

It is unlikely that the Company will pay any dividends on the SVS in the foreseeable future. However, dividends received by shareholders who are residents of Canada for purpose of the ITA will be subject to US withholding tax. Any such dividends may not qualify for a reduced rate of withholding tax under the Canada-US tax treaty. In addition, a foreign tax credit or a deduction in respect of foreign taxes may not be available.

Dividends received by US shareholders will not be subject to US withholding tax but will be subject to Canadian withholding tax. Dividends paid by the Company will be characterized as US source income for purposes of the foreign tax credit rules under the US Tax Code. Accordingly, US shareholders generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, they have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax.

Dividends received by shareholders that are neither Canadian nor US shareholders will be subject to US withholding tax and will also be subject to Canadian withholding tax. These dividends may not qualify for a reduced rate of US withholding tax under any income tax treaty otherwise applicable to a shareholder of the Company, subject to examination of the relevant treaty.

Because the SVS will be treated as shares of a US domestic corporation, the US gift, estate, and generation-skipping transfer tax rules generally apply to a non-US shareholder of SVS.

Shareholders should seek tax advice, based on such shareholders' particular circumstances, from an independent tax advisor.

If our vaporizer products become subject to increased taxes it could adversely affect our business

Purchases by the Company's customers of its products is sensitive to increased sales taxes and economic conditions affecting customer disposable income. Discretionary consumer purchases, such as of vaporization products and consumption accessories, may decline during recessionary periods or at other times when disposable income is lower and taxes may be higher. Presently, the sale of vaporization products and certain other consumption accessories is, in certain jurisdictions, subject to federal, state and local excise taxes like the sale of conventional cigarettes or other tobacco products, all of which generally have high tax rates and have faced significant increases in the amount of taxes collected on their sales. Other jurisdictions are contemplating similar legislation and other restrictions on electronic cigarettes and certain other vaporizer products. Should federal, state, and local governments and/or other taxing authorities begin or continue to impose excise taxes similar to those levied against conventional cigarettes and tobacco products on vaporization products or consumption accessories, it may have a material adverse effect on the demand for those products, as consumers may be unwilling to pay the increased costs, which in turn could have a material adverse effect on the Company's business, results of operations and financial condition. The Company may become involved in regulatory or agency proceedings, investigations, and audits. Its business, and the business of the suppliers from which it acquires the products it sells, requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject the Company or its suppliers to regulatory or agency proceedings or investigations and could also lead to damage awards, fines, and penalties. The Company or its suppliers may become involved in a number of government or agency proceedings, investigations, and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation or the reputations of the brands

that it sells, require it to take, or refrain from taking, actions that could harm its operations or require it to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operations.

Limited market for securities

The Company is currently subject to the CTO, which has halted all trading in the Company's SVS, until the Company has filed: (i) the Outstanding Annual Filings; and (ii) the Q1 2020 Filings.

On August 10, 2020, the Company filed the Outstanding Annual Filings, and on August 25, 2020, the Company filed the Q1 2020 Filings. The Company applied to the OSC to have the CTO revoked. The Company expects trading to resume on the CSE shortly after the revocation of the CTO. While the Company has made the application, there is no assurance that the OSC will grant the revocation order.

There can be no assurance that the OSC will revoke the CTO in a timely fashion, if ever. In addition, there can be no assurance as to what additional requirements may be imposed on the Company by the OSC in relation to the revocation of the CTO. Until the CTO is revoked, the Company will be unable to raise funds through the sale of securities as there will be no market demand for the securities.

Even after the CTO is revoked, the public market for the Company's equity securities is limited and of low liquidity. There can be no assurance that an active and liquid market for the Company's shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

The market price of securities is volatile and may not accurately reflect the long-term value of the Company

Securities markets have a high level of price and volume volatility, and the market prices of securities of many companies have experienced substantial volatility and price decline in the past, which may affect the ability of holders of Company equity or debt securities (or derivatives thereof) to sell their securities at an advantageous price. Market price fluctuations in Company equity or debt securities may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of Company equity or debt securities.

Financial markets have historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Company's equity or debt securities may decline even if the Company's investment results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in investment values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of its equity or debt securities may be materially adversely affected.

Limited trademark protections

Due to the current illegality of cannabis sale or distribution under US federal law, the Company is not able to register any US federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the FCSA, the US Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the US states in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of

such trademarks, and growth of the Company's business into other states may be adversely impacted by the Company's inability to pursue US federal trademark registration.

Enforcement of intellectual property rights

The Company may be unable to adequately protect or enforce its intellectual property rights. Its continuing success will likely depend, in part, on its ability to protect internally developed or acquired intellectual property, and to maintain the proprietary nature of its technology through a combination of licenses and other intellectual property arrangements, without infringing the proprietary rights of third parties. There can be no assurance that the intellectual property owned by the Company will be held legally valid at the state or federal level if challenged, or that other parties will not claim rights in or ownership of its intellectual property. Moreover, because cannabis is a Schedule I controlled substance under federal law, and because the US Patent and Trademark Office will not issue federal trademark registrations if the applicant cannot show lawful use of the mark in commerce, it may not be able to adequately protect its intellectual property.

Infringement or misappropriation claims

The Company may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to the resulting issuer, could subject the Company to significant liabilities and other costs. The Company's success may likely depend on its ability to use and develop new extraction technologies, recipes, know-how and new strains of cannabis without infringing the intellectual property rights of third parties. The Company cannot assure that third parties will not assert intellectual property claims against it. The Company is subject to additional risks if entities licensing to it intellectual property do not have adequate rights in any such licensed materials. If third parties assert copyright or patent infringement or violation of other intellectual property rights against the Company, it will be required to defend itself in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of management personnel. An adverse determination in any such litigation or proceedings to which the Company may become a party could subject it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties or subject the Company to injunctions prohibiting the development and operation of its applications.

Potential FDA regulation

Should the US federal government legalize cannabis, it is possible that the US Food and Drug Administration (the "FDA"), would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including good manufacturing practices, related to the growth, cultivation, harvesting and processing of cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If the Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company's business, operating results, and financial condition.

Unfavorable publicity or consumer perception

Management of the Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. The Company's financial performance will depend on whether customers view its products as effective and safe for use.

Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that is perceived as less favorable, or that questions earlier research reports, findings or other publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that

adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have such a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or the Company's products specifically, or associating the consumption of cannabis with illness, criminality, or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

A negative shift in the public's perception of cannabis, including vaping or other forms of cannabis ingestion, in the US or any other applicable jurisdiction could cause US state jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Recent medical alerts by the CDC and state health agencies on vaping related illness and other issues directly related to cannabis consumption could potentially create an inability to fully implement the Company's expansion strategy and may have a material adverse effect on the Company's business, results of operations or prospects.

Securities class action litigation risks

The Company may from time to time be involved in various claims, class actions, legal proceedings, and disputes. In particular, the Company is aware that certain firms have issued press releases announcing that they are investigating potential securities class actions against the Company or are preparing lawsuits on behalf of the Company's shareholders. As of the date of this MD&A, the Company is not aware of any such action that has been commenced or certified. If the Company is unable to resolve any disputes favorably, it may have a material adverse effect on the Company. Even if the Company successfully defends against litigation and wins, litigation can redirect significant company resources, divert management's attention and the legal fees and costs incurred in connection with such activities may be significant. Additionally, the Company may be subject to judgments or enter into settlements or claims for significant monetary damages. Such litigation may also create a negative perception of the Company. Any decision resulting from any such litigation that is adverse to the Company could have a negative impact on its financial position.

Risks associated with increased competition

The cannabis industry is highly competitive. The Company competes with numerous other businesses in the medicinal and adult-use cannabis industry, many of which possess greater financial, marketing, and other resources than the Company. The cannabis business is often affected by changes in national and regional economic conditions, demographic trends, disposable income, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw materials and labor, and governmental regulations. Any changes in these factors could materially and adversely affect the Company's operations. The Company's operations can also be substantially affected by adverse publicity resulting from quality, illness, injury, health concerns, public opinion, or operating issues. The Company will attempt to manage these factors, but the occurrence of any one or more of these factors could materially and adversely affect the Company's business, financial condition, and results of operations.

The Company expects to face additional competition from new entrants. If the number of legal users of cannabis in its target jurisdiction increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products.

To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales, and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales, and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition, and results of operations the Company.

The success of new and existing products and services is uncertain

The Company expects to commit significant resources and capital to develop and market existing and new products, services, and enhancements. The Company cannot provide any assurance that it will achieve market acceptance for these products and services, or other new products and services that it may offer in the future. Moreover, these and other new products and services may face significant competition with new and existing competitors. In addition, new products,

services, and enhancements may pose a variety of technical challenges and require the Company to attract additional qualified employees, and to expend material sums of funds for new product development. The failure to successfully develop and market these new products, services or enhancements could seriously harm the Company's business, financial condition, and results of operations. Moreover, if the Company fails to accurately project demand for new or existing products, it may encounter problems of overproduction or underproduction which would materially and adversely affect its business, financial condition and results of operations, as well as damage its reputation and brands.

New, well-capitalized entrants may develop large-scale operations

Currently, the cannabis industry is generally comprised of small to medium-sized entities. However, the risk exists that large conglomerates and companies which recognize the potential for financial success through investment in the industry could purchase or assume control of a larger number of dispensaries and cultivation and production facilities. The Company believes that this trend is already underway. These potential competitors may have longer operating histories, significantly greater financial, technological, engineering, manufacturing, marketing, and distribution resources, and be larger and better capitalized. Larger competitors could establish price setting and cost controls which would effectively eliminate many of the small to medium-sized entities who currently make up the bulk of the participants in the medical and adult-use cannabis industry. While the approach of most state laws and regulations might deter this trend, the industry remains nascent and as indicated above this trend is being observed, so the future competitive landscape in the industry remains largely unknown.

The Company's business and strategic plans are subject to all business risks associated with new business enterprises, including the absence of any significant operating history upon which to evaluate an investment. The likelihood of the Company's success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the formation of a new business, the development of new strategy and the competitive environment in which the Company operates. It is possible that the Company will incur losses in the future. There is no guarantee that the Company will be profitable.

Factors which may prevent realization of growth targets

The Company is currently in the early development stage. There is a risk that the additional resources will be needed, and that milestones will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company:

- delays in obtaining, or conditions imposed by, regulatory approvals.
- facility design errors.
- environmental pollution.
- non-performance by third party contractors.
- increases or unforeseen variances in materials or labour costs.
- construction performance falling below expected levels of output or efficiency.
- breakdown, aging or failure of equipment or processes.
- contractor or operator errors.
- labour disputes, disruptions or declines in productivity.
- inability to attract sufficient numbers of qualified workers.
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes, or storms.

Constraints on marketing products

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the US limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's revenues and operating results could be adversely affected.

Risks inherent in an agricultural business

The Company's business involves the growing of cannabis, an agricultural product. Cannabis cultivation has the risks inherent in any agricultural business, including the risk of crop loss, sudden changes in environmental conditions, equipment failure, product recalls and others.

Given the proximity with which commercially grown cannabis plants are farmed, pest, disease, and crop failures can spread quickly between plants causing material losses. As with any plant crop, quality finished product requires that plants be provided with the correct quantities of clean water, clean air, sunshine, and nutrients, all within a controlled environment. In addition to crop failure due to pest and disease, crop failure can result from sabotage, theft, natural disaster, and human error. Failure of the plant to survive, pass testing requirements or meet industry standards could result in unsaleable finished product. Given the complex series of variables required to produce top quality cannabis, no assurance can be given that production levels will meet estimates or that product will pass required testing or be of a quality that is competitive or acceptable in the market. The failure to produce marketable cannabis product could have a material adverse financial impact on the Company.

Environmental regulation and risk

The Company's operations are subject to environmental regulations that mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which could result in stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of cannabis oil and related products, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

Reliance on management

The success of the Company is dependent on the performance of its senior management. The loss of services of these persons would have a material adverse effect on the Company's business and prospects in the short-term. There is no assurance the Company can maintain the services of its officers or other personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Reliance on third-party service providers

Third party service providers to the Company may withdraw or suspend their service to the Company under threat of criminal prosecution. Since under US federal law the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, companies that provide goods and/or services to companies engaged in cannabis-related activities may, under threat of federal civil and/or criminal prosecution, suspend or withdraw their services. Any suspension of service and inability to procure goods or services from an alternative source, even on a temporary basis, that causes interruptions in the Company's operations could have a material and adverse effect on the Company's business.

Insurance and uninsured risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labor disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses, and possible legal liability.

Although the Company intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

The Company may be underinsured and there may be difficulties with acquiring and maintaining insurance coverage, which would reduce or eliminate the capability of insurance to serve as a reliable and effective risk management tool. Cannabis-specific insurance is still a small and specialized market. Insurance is often unattainable as it is either not offered, or it is prohibitively expensive given the scarcity of actuarial data and small number of market participants, which both reduce the ability to share risk across entities. Many of the risks faced by the Company are uninsured or uninsurable. Consequently, the Company will be vulnerable to low probability high-impact events. If one or more such events were to occur, it could result in material adverse effects to the financial and operational condition of the Company.

Dependence on suppliers and skilled labor

The ability of the Company to compete and grow is dependent on it having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts, and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labor, equipment, parts, and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial and operational results of the Company.

Retention and acquisition of skilled personnel

The loss of any member of the Company's management team could have a material adverse effect on its business and results of operations. In addition, an inability to hire, or the increased costs of new personnel, including members of executive management, could have a material adverse effect on the Company's business and operating results. At present and for the near future, the Company will depend upon a relatively small number of employees to develop, market, sell and support its products and services. The expansion of marketing and sales of its products will require the Company to find, hire and retain additional capable employees who can understand, explain, market and sell its products and services. There is intense competition for capable personnel in all of these areas and the Company may not be successful in attracting, training, integrating, motivating, or retaining new personnel, vendors, or subcontractors for these required functions. New employees often require significant training and, in many cases, take significant time before they achieve full productivity. As a result, the Company may incur significant costs to attract and retain employees, including significant expenditures related to salaries and benefits and compensation expenses related to equity awards, and may lose new employees to its competitors or other companies before it realizes the benefit of its investment in recruiting and training them.

Management of growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and

improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Internal controls

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company has undertaken a number of procedures to help ensure the reliability of its financial reports, including those required of the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations, or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the value of the Company's equity securities.

Product liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis alone or in combination with other medications or substances could occur. As a manufacturer, distributor and retailer of adult-use and medical cannabis, or in its role as an investor in or service provider to an entity that is a manufacturer, distributor and/or retailer of adult-use or medical cannabis, the Company may be subject to various product liability claims, including, among others, that the cannabis product caused injury or illness, that the Company failed to provide adequate instructions for use of its products, or that the Company provided inadequate warnings concerning its products as to possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations, reputation, financial condition or prospects of the Company. There can be no assurance that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or materially inhibit the commercialization of the Company's potential products or otherwise have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls cause material, unexpected expenses, as well as legal and regulatory proceedings that cause material and unexpected expenses. This can cause loss of a significant amount of sales, as well as a significant increase in Company expenses. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency, or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action, or lawsuits. Additionally, if one of the Company's products were subject to recall, the market reputation of the Company and its products could be materially harmed. Additionally, product recalls can lead to increased ongoing scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Product safety and vaping risk

On October 4, 2019, the FDA issued a warning to the public to stop using vaping liquids containing cannabis derivatives and ingredients, such as CBD and THC, in light of a potential but unconfirmed link to lung injuries. Such

warnings appear to be particularly focused on the use of vaping liquids purchased from unlicensed or unregulated retailers. There may be governmental and private sector actions aimed at reducing the sale of cannabis containing vaping liquids and/or seeking to hold manufacturers of cannabis-containing vaping liquids responsible for the adverse health effects associated with the use of these vaping products. These actions, combined with potential deterioration in the public's perception of cannabis-containing vaping liquids, may result in a material reduction in consumer demand for vaporizer products. Regulations or actions that prohibit or restrict the sale of vaporizer products including cannabis derivative vaping liquids, or that decrease consumer demand for the Company's products by prohibiting their use, raising the minimum age for their purchase, raising the purchase prices to unattractive levels via taxation, or banning their sale, could adversely impact the financial condition and results of operations of the Company.

Public health crises

The Company's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises beyond our control, including the current outbreak of COVID-19. In December 2019, COVID-19 was reported to have surfaced in Wuhan, China. On January 30, 2020, the WHO declared the COVID-19 outbreak a global health emergency and on March 11, 2020, the WHO expanded its classification of COVID-19 to a worldwide pandemic. Many governments have likewise declared that the COVID-19 outbreak in their jurisdictions constitutes an emergency and have ordered all but certain essential businesses closed and imposed significant limitations on the circulation of the populace. Furthermore, certain illnesses may be transmitted through human or surface contact, and the risk of contracting such illnesses could cause employees and customers to avoid gathering in public places, as was the case in many places from February to August 2020 due to concerns about the coronavirus. Reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, business closures, quarantines, and a general reduction in consumer activity. While these effects are expected to be temporary, the duration of the business disruptions and related financial impact cannot be reasonably estimated at this time.

Such public health crises can result in volatility and disruptions in the supply and demand for various products and services, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect interest rates, credit ratings, credit risk, inflation and, as a result, demand for our end customers' products and our operating results. The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak.

At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations and financial condition. The Company expects to experience some short to medium term negative impacts from the COVID-19 outbreak; however, the extent of such impacts is currently unquantifiable, but may be significant. Such impacts include, with respect to its operations, its suppliers' operations and its customers' operations, forced closures, mandated social distancing, isolation and/or quarantines, impacts of declared states of emergency, increased government regulation, public health emergency and similar declarations and could include other increased government regulations, reduced sales, and potential supply and staff shortages, all of which are expected to negatively impact the business, financial condition and results of operations of the Company and thus may impact the ability of the Company to comply with financial covenants, satisfy its obligations to its lenders and other parties, which may in turn may adversely impact, among other things, the ability the Company to access debt or equity capital on acceptable terms or at all.

The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown of operations in the Company's stores. Should an employee or visitor in any of the Company's stores or workplaces become infected with a serious illness that has the potential to spread rapidly, this could place the Company's workforce at risk. The Company takes every precaution to strictly follow industrial hygiene and occupational health guidelines and applicable health authority recommendations.

The Company continues to operate mostly uninterrupted in light of the COVID-19 pandemic. However, some of the measures the Company has taken are as follows:

- Lobbied state and local municipalities to continue to operate and provide essential services, including receiving temporary relief and support from the BCC to allow for curbside pickup at the Harborside Dispensaries and Harborside San Leandro (medical only).
- Continue to offer increased drive-thru services at Harborside Desert Hot Springs.
- Added additional resources to its home delivery services, which are available to customers in Oakland, San Jose and the Greater East Bay and Peninsula areas at shopharborside.com.
- Limiting customer traffic inside its stores.
- Maintaining social distancing requirements of at least six feet when customers are waiting in line or consulting with associates.
- Cleaning and disinfecting all frequently touched surfaces including doorknobs, countertops, ATM machines, debit terminals, and all other frequently used workplaces.
- Providing hand sanitizer throughout the store along with personal protective equipment such as gloves and masks.
- Encouraging staff to take temperatures regularly to ensure continued good health; and
- Where possible, employees are being asked to work from home.

Liability for activity of employees, contractors, and consultants

The Company could be liable for fraudulent or illegal activity by its employees, contractors, and consultants, resulting in significant financial losses, claims or regulatory enforcement actions against the Company. The cannabis industry is under strict scrutiny. Failure to comply with relevant laws could result in fines, suspension of licenses, and civil or criminal action being taken against the Company. Consequently, the Company is subject to certain risks, including that employees, contractors and consultants may inadvertently fail to follow the law or purposefully neglect to follow the law, either of which could result in material adverse effects to the financial condition and operating results of the Company.

Liability for litigation, complaints and inquiries of employees, contractors, and consultants

Litigation, formal or informal complaints, and inquiries by employees, contractors, and consultants against the Company may arise in the course of the Company's operations. Such litigation, formal or informal complaints, and inquiries involving the Company could consume considerable amounts of financial, management and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition. Potential proceedings could involve substantial litigation expense, penalties, fines, injunctions, or other restrictions being imposed upon Harborside or its business partners, while diverting attention of the key executives. Such proceedings could have a material adverse effect on Harborside's business as well as impact its reputation.

Reliance on joint venture partners

The Company is engaged in certain joint ventures or shared management services agreements, and therefore decisions about operations, funding, employment practices, licensing, banking, compliance, and marketing strategy, among others, require the consent of both joint venture partners. Because the Company does not solely control joint ventures or clients of the management services agreements, the Company could fail to obtain the joint venture partner's consent or authorization to fully operate, fund, or license the venture. As such, the lack of full control over joint ventures or management services clients could result in material adverse effects to the financial condition of the Company.

Reliance on information technology and vulnerability to cyber-attacks

The Company is reliant on information technology systems and may be subject to damaging cyber-attacks. Every business is subject to cyber-attacks; however, cannabis businesses are particularly vulnerable given the relatively small size of the market for cannabis-specific information technology providers. As such, cannabis-specific information

technology may be less able to thwart attempted breaches and misuses of information technology systems. A breach of the Company's computers or network systems could give rise to liabilities that result in material adverse effects to the financial or operating condition of the Company.

Data breaches and privacy law

The Company may be subject to breaches of security at its facilities, or in respect of electronic documents and data storage, and may face risks related to breaches of applicable privacy laws. The Company has previously provided medical cannabis to patients and maintains patient records. Due to the sensitive nature of this information, the Company could be found liable if a breach of security at its facility resulted in the theft, loss, or mishandling of electronic data. If such a breach did occur, the Company could be liable for fines, penalties and for any third-party liability which could result in a material adverse effects to the financial or operating condition of the Company.

Information technology systems and cyber attacks

The Company's operations depend in part on how well it protects networks, equipment, and information technology systems and software against damage from a number of threats, including but not limited to cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as preemptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component thereof could, depending on the nature of such failure, adversely impact the Company's reputation, results of operations, and financial condition. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other factors, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Ability to obtain and retain licenses and permits

The Company may not be able to obtain and/or retain all necessary California State and Oregon State licenses and permits, which could, among other things, delay or prevent the Company from becoming profitable. The Company's lines of business are reliant on the issuance of required licenses. Failure to acquire or retain necessary licenses required to operate could have a material adverse effect on its financial or operating condition. Due to the nature of licensing, which is at the discretion of state and local governments, it is outside of the Company's control, and therefore it is not possible to assure that the Company will receive the licenses it seeks or requires.

Illegal drug dealers could pose threats

Currently, there are many illegal drug dealers and cartels that cultivate, buy, sell, and trade cannabis in the US, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized cannabis businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

Competition from synthetic production and technological advances

The pharmaceutical industry may attempt to enter the cannabis industry through the development and distribution of synthetic products which emulate the effects and treatment of organic cannabis. If they are successful, the widespread popularity of such synthetic products could change the demand, volume, and profitability of the organic cannabis industry. This could adversely affect the ability of the Company to secure long-term profitability and success through the sustainable and profitable operation of its business. There may be unknown additional regulatory fees and taxes that may be assessed in the future.

Results of future clinical research

Research in Canada, the US and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC) and future research and clinical trials may discredit the medical benefits, viability, safety, efficacy, and social acceptance of cannabis or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective purchasers of the Company's securities should not place undue reliance on such articles and reports. Future research studies may reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Difficult to forecast demand

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis industry in Canada and the US. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Disruption of business

Conditions or events including, but not limited to, those listed below could materially disrupt the Company's and other industry participant's, supply chains, interrupt operations, increase operating expenses, and thereby result in loss of sales, delayed performance of contractual obligations or require additional expenditures to be incurred: (i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, drought, tsunami, extreme heat, earthquakes, etc.; (ii) a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness (see also, "Outlook and Impact of COVID-19", "Risk Factors – Public health crises" and "Risk Factors – Global Economic Conditions"); (iii) political instability, social and labor unrest, riot, insurrection, war or terrorism; or (iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road. The extent to which COVID-19 or any other contagious disease impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of this or any other outbreak and the actions to contain those outbreaks or treat its impact, among others.

Disclosure of Internal Controls over Financial Reporting

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements; and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented. In contrast to non-venture issuers, this MD&A does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). In particular, management is not making any representations relating to the establishment and maintenance of: controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its filings or other reports or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Investors should be aware that inherent limitations on the ability of management of the Company to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of filings and other reports provided under securities legislation.

Management's Responsibility for Financial Information

Management is responsible for all information contained in this MD&A. The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the unaudited condensed interim consolidated financial statements in all material aspects.

The Audit Committee has reviewed the unaudited condensed interim consolidated financial statements and this MD&A with management of the Company. The Board of Harborside has approved the unaudited condensed interim consolidated financial statements and this MD&A on the recommendation of the Audit Committee.

Approval

The Board of Directors of the Company has approved the disclosure contained in this MD&A.

Additional Information

Additional information relating to Harborside can be found on the Company's SEDAR profile at www.sedar.com, or its website at www.investharborside.com.

August 31, 2020

Peter Bilodeau
Interim CEO