HARBORSIDE INC.
Unaudited Condensed Interim Consolidated Financial Statements

For the Three Months Ended March 31, 2021 and 2020
(Expressed in United States Dollars)

HARBORSIDE INC.
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Management's Responsibility for Financial Reporting

To the Shareholders of Harborside Inc.:

The accompanying unaudited condensed interim consolidated financial statements were prepared by management of Harborside Inc. (the "Company") and were reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the unaudited condensed interim consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's unaudited condensed interim consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors of the Company and were signed on behalf of Management by:

"Peter Bilodeau" (signed)	*"Tom DiGiovanni" (signed)*
Interim Chief Executive Officer	*Chief Financial Officer*

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Financial Position
As At March 31, 2021 and December 31, 2020
(Expressed in United States Dollars, except share amounts)

	Note	2021	2020
ASSETS			
Current Assets			
Cash		$ 30,607,551	$ 10,458,545
Restricted cash	14	316,250	-
Accounts receivable, net	3	1,636,521	1,932,002
Inventories	4	3,951,529	3,785,849
Biological assets	5	849,786	1,321,069
Prepaid expenses	6	1,766,911	1,759,013
Note receivable - related party	24	102,323	101,337
Other current assets	7	691,544	450,069
Total current assets		39,922,415	19,807,884
Investments and advances	8	5,303,426	250,000
Property, plant and equipment, net	9	18,064,625	17,909,607
Right-of-use assets	11	4,667,668	4,707,834
Deposits and other assets		528,643	20,053
Intangible assets	10	57,905,456	57,907,891
Goodwill	10	14,366,055	14,366,055
TOTAL ASSETS		$ 140,758,288	$ 114,969,324
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12	$ 17,751,101	$ 17,198,715
Due to related parties		-	144,000
Convertible notes payable - current	15	484,926	473,908
Derivative liabilities - current	16	76	21,180
Lease payable - current	11	441,028	487,574
Income tax payable	19	8,635,498	7,382,002
Provisions	17	38,126,442	37,758,875
Total current liabilities		65,439,071	63,466,254
Note payable and accrued interest	13	10,854,839	10,726,421
Revolving credit facility, net	14	316,400	-
Derivative liabilities	16	12,910,077	-
Deferred tax liability	19	16,007,414	16,185,657
Lease payable	11	5,965,033	5,959,407
TOTAL LIABILITIES		111,492,834	96,337,739
Shareholders' Equity			
Share capital	20	109,368,171	97,423,381
Contributed surplus	21	9,304,199	9,305,199
Reserve for warrants	22	2,694,420	1,093,592
Accumulated deficit		(95,167,966)	(92,257,217)
Non-controlling interest		3,066,630	3,066,630
TOTAL SHAREHOLDERS' EQUITY		29,265,454	18,631,585
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 140,758,288	$ 114,969,324

Nature of operations (Note 1)
Commitments and contingencies (Note 25)
Subsequent events (Note 29)

Approved on behalf of the Board of Directors:

"Matt Hawkins" (signed)

Director

"Peter Kampian" (signed)

Director

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

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the Three Months Ended March 31, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

	Note	For the three months ended March 31, 2021	March 31, 2020
Retail revenue, net		$ 10,036,262	$ 10,181,471
Wholesale revenue, net		2,921,268	4,456,775
Gross revenue		12,957,530	14,638,246
Cultivation taxes		(516,615)	(969,417)
Net Revenue		12,440,915	13,668,829
Cost of goods sold - retail		4,521,503	4,961,581
Cost of goods sold - wholesale		2,092,754	3,668,811
		6,614,257	8,630,392
Gross Profit before Biological Asset Adjustments		5,826,658	5,038,437
Changes in fair value less costs to sell of biological asset transformation	5	(717,230)	1,041,442
Realized fair value amounts included in inventory sold		(520,915)	579,927
Gross Profit		4,588,513	6,659,806
Expenses			
General and administrative	18	4,324,066	4,123,830
Professional fees		3,184,888	1,662,743
Share-based compensation	21	(1,000)	105,734
Allowance for expected credit losses	3	77,042	-
Depreciation and amortization	9, 10 & 11	214,108	290,644
		7,799,104	6,182,951
Operating (loss) income		(3,210,591)	476,855
Interest income (expense), net		(915,562)	(1,103,130)
Other income		322,796	34,776
Fair value gain in other current assets, derivative liabilities and preferred shares	16	2,013,059	43,972
Foreign exchange loss		(45,199)	(408,782)
Total Other Income (Expense)		1,375,094	(1,433,164)
Net Loss before Income Taxes		(1,835,497)	(956,309)
Income tax expense	19	(1,075,252)	(1,430,827)
Net Loss and Comprehensive Loss		$ (2,910,749)	$ (2,387,136)
Weighted Average Number of Shares Outstanding			
Basic and diluted		51,045,299	49,432,795
Net Loss per Share			
Basic and diluted	23	$ (0.06)	$ (0.05)

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

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statement of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

	Note	Share capital	Contributed surplus	Warrants	Accumulated Deficit	Subtotal	Non-controlling interests	Equity incl. non-controlling
Balance, January 1, 2020		**$ 94,289,909**	**$ 9,967,943**	**$ 1,187,777**	**$ (80,310,527)**	**$ 25,135,102**	**$ -**	**$ 25,135,102**
Exercise of stock options	21	7,264	-	-	-	7,264	-	7,264
Share-based compensation	21	-	105,734	-	-	105,734	-	105,734
Expiry of options issued on reverse takeover	21	94,185	-	(94,185)	-	-	-	-
Net loss for the period		-	-	-	(2,387,136)	(2,387,136)	-	(2,387,136)
Balance, March 31, 2020		**$ 94,391,358**	**$ 10,073,677**	**$ 1,093,592**	**$ (82,697,663)**	**$ 22,860,964**	**$ -**	**$ 22,860,964**
Balance, January 1, 2021		**$ 97,423,381**	**$ 9,305,199**	**$ 1,093,592**	**$ (92,257,217)**	**$ 15,564,955**	**$ 3,066,630**	**$ 18,631,585**
Exercise of stock options	21	24,094	-	-	-	24,094	-	24,094
Share-based compensation	21	-	(1,000)	-	-	(1,000)	-	(1,000)
Issuance of SVS and MVS in private offering	20	13,115,086	-	-	-	13,115,086	-	13,115,086
Private offering issuance costs	20	(1,194,390)	-	-	-	(1,194,390)	-	(1,194,390)
Issuance of warrants to the Bank	14 & 22	-	-	466,716	-	466,716		466,716
Issuance of Broker Warrants	20 & 22	-	-	1,134,112	-	1,134,112	-	1,134,112
Net loss for the period		-	-	-	(2,910,749)	(2,910,749)	-	(2,910,749)
Balance, March 31, 2021		**$ 109,368,171**	**$ 9,304,199**	**$ 2,694,420**	**$ (95,167,966)**	**$ 26,198,824**	**$ 3,066,630**	**$ 29,265,454**

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

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

	Note	For the three months ended March 31, 2021	March 31, 2020
Operating Activities			
Net loss for the period		$ (2,910,749)	$ (2,387,136)
Adjustments to reconcile net loss to cash flow:			
Share-based compensation	21	(1,000)	105,734
Depreciation and amortization	9, 10 & 11	727,240	799,061
Changes in fair value less costs to sell of biological asset transformation	5	717,230	(1,041,442)
Fair value gain in other current assets, derivative liabilities and preferred shares	16	(2,013,059)	(43,972)
Provision for expected credit losses	3	77,042	-
Interest income on notes receivable - related party and investments and advances	8 & 24	(54,411)	(22,438)
Lease modification		(11,291)	-
Professional fees classified as financing activities - private placement of equity units	20	596,157	-
Foreign exchange gain (loss)		45,199	(408,782)
		(2,827,642)	(2,998,975)
Changes in non-cash working capital:			
Accounts receivable, net	3	217,853	426,608
Inventories	4	(165,680)	(1,155,891)
Biological assets	5	(245,947)	415,566
Prepaid expenses	6	(9,042)	(357,988)
Other current assets		-	(44,136)
Deposits and other assets		(44,919)	(168,359)
Accounts payable and accrued liabilities	12	560,727	1,978,831
Due to related parties		(144,000)	-
Accrued interest on note payable	13	139,436	153,613
Lease payable	11	(141,751)	4,745
Income tax payable	19	1,253,496	1,799,152
Provisions	17	367,567	481,217
Deferred tax liability	19	(178,243)	340,488
Cash Flows (used in) provided by Operating Activities		(1,218,145)	874,871
Financing Activities			
Net proceeds raised in private offering	20	26,990,719	-
Net proceeds from draw down on revolving credit facility	14	316,400	-
Proceeds from exercise of stock options	21	24,094	7,264
Cash Flows provided by Financing Activities		27,331,213	7,264
Investing Activities			
Investment in Loudpack debentures	8	(5,000,000)	-
Purchases of property, plant and equipment	9	(727,535)	(216,946)
Cash Flows (used in) Investing Activities		(5,727,535)	(216,946)
Increase in cash and restricted cash		20,385,533	665,189
Effects of foreign exchange on cash and restricted cash		79,723	329,122
Cash and restricted cash, beginning of period		10,458,545	12,164,927
Cash and restricted cash, end of period		$ 30,923,801	$ 13,159,238
Cash and restricted cash consisted of the following:			
Cash		30,607,551	13,159,238
Restricted cash - interest reserves	14	316,250	-
		$ 30,923,801	$ 13,159,238

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

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

		For the three months ended	
	Note	**March 31, 2021**	**March 31, 2020**
Supplementary Information			
Cash paid during the period for:			
Interest		242,001	204,296
Non-Cash Investing and Financing Activities			
Issuance of warrants to Bank	14 & 22	466,716	-
Issuance of Broker Warrants	20 & 22	1,134,112	-
Expiry of warrants issued on reverse takeover	22	-	94,185

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

1. Nature of Operations

Harborside Inc. ("Harborside" or the "Company"), through its affiliated entities, 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 state and local laws and regulations.

Harborside owns and operates three retail dispensaries in California, one retail dispensary in Oregon (the "Terpene Station Dispensary") and a cultivation/production facility in Salinas, California (the "Production Campus"). In addition, the Company operates a dispensary in Desert Hot Springs, California under a management services agreement with Accucanna LLC (Note 2.3).

On April 30, 2020, Harborside permanently closed its retail dispensary in Portland, Oregon due to the results of a strategic review of the Company's operations and a decision to focus on its highest return-on-investment assets, specifically those with potential for revenue growth and profitability within the next 12 months. On December 18, 2020, the Company acquired a 21% ownership interest in FGW Haight Inc. ("FGW"), a company that has the conditional use approval necessary to operate a cannabis dispensary and related businesses in the Haight Ashbury area of San Francisco, California. The Company is focused on building and maintaining its position as one of California's premier vertically integrated cannabis companies.

The Company's subordinate voting shares ("SVS") are listed on the Canadian Securities Exchange (the "CSE") under the trading symbol "HBOR" and on the OTCQX under the trading symbol "HBORF". The Company's registered office is located at 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada, and the Company's head office is located at 2100 Embarcadero, Suite 202, Oakland, California 94606, United States.

2. Basis of Presentation

2.1 Statement of Compliance and Basis of Measurement

The Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2021, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"), have been omitted or condensed. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020, and the related notes thereto, and have been prepared using the same accounting policies described therein.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Company's board of directors (the "Board").

2.2 Functional Currency

The functional currency of the Company and each of its subsidiaries, as determined by management, is the United States ("U.S.") dollar. Unless otherwise indicated, these unaudited condensed interim consolidated financial statements are presented in U.S. dollars ($ or "USD"). All references to "C$" or "CAD" pertain to Canadian dollars.

(Expressed in United States Dollars, except share amounts)

2. Basis of Presentation (continued)

2.3 Basis of Consolidation

These unaudited condensed interim consolidated financial statements incorporate the accounts of the Company and its wholly-owned subsidiaries as follows:

Name	Jurisdiction	Purpose	Percentage Owned (%) March 31, 2021	Percentage Owned (%) December 31, 2020
Harborside Inc.	Ontario, Canada	Parent	100	100
Unite Capital Corp.	Ontario, Canada	Holding Company	100	100
LGC Holdings USA, Inc.	Nevada, U.S.	Holding Company	100	100
LGC Real Estate Holdings, LLC	Nevada, U.S.	Holding Company	100	100
LGC Real Estate (Colorado), LLC	Nevada, U.S.	Holding Company	100	100
LGC Operations, LLC	Nevada, U.S.	Holding Company	100	100
Lineage GCL Oregon Corporation	Oregon, U.S.	Holding Company	100	100
LGC LOR DIS 1, LLC	Oregon, U.S.	Operating Company	100	100
LGC LOR DIS 2, LLC	Oregon, U.S.	Operating Company	100	100
Lineage GCL California, LLC	California, U.S.	Holding Company	100	100
FLRish, Inc.	California, U.S.	Management Company	100	100
FLRish IP, LLC	California, U.S.	Holding Company	100	100
FLRish Retail, LLC	California, U.S.	Holding Company	100	100
FLRish Retail JV, LLC	California, U.S.	Holding Company	100	100
FLRish Retail Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish Farms Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish Retail Affiliates, LLC	California, U.S.	Holding Company	100	100
FLRish Flagship Enterprises, Inc.	California, U.S.	Holding Company	100	100
Savature Inc.	California, U.S.	Operating Company	100	100
SaVaCa, LLC	California, U.S.	Holding Company	100	100
FFC1, LLC	California, U.S.	Holding Company	100	100
FLRish Farms Cultivation 2, LLC	California, U.S.	Operating Company	100	100
FLRish Farms Cultivation 7, LLC	California, U.S.	Holding Company	100	100
Patients Mutual Assistance Collective Corporation	California, U.S.	Operating Company	100	100
San Jose Wellness Solutions Corp.	California, U.S.	Operating Company	100	100
San Leandro Wellness Solutions Inc.	California, U.S.	Operating Company	100	100
Haight Acquisition Corporation	Delaware, U.S.	Holding Company	100	100
FGW Haight Inc.	California, U.S.	Operating Company	21	21
Encinal Productions RE, LLC	California, U.S.	Operating Company	100	-

The financial statements as at March 31, 2021 and December 31, 2020 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in IFRS 10. Entities over which the Company has control are presented on a consolidated basis from the date control commences. Control, as defined by IFRS 10 for purposes of determining the consolidated basis of financial statement presentation exists when the Company is exposed to, or has right to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. All of the consolidated entities were under control, as defined in IFRS 10 for purposes of determining the consolidated basis of financial statement presentation, during the entirety of the periods for which their respective results of operations were included in the consolidated statements. The unaudited condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries that it controls after eliminating intercompany balances and transactions. The Company does not control Accucanna LLC.

2. Basis of Presentation (continued)

2.4 COVID-19 Estimation Uncertainty

On January 30, 2020, the World Health Organization ("WHO") declared the ongoing novel coronavirus "COVID-19" outbreak a global health emergency and on March 11, 2020, the WHO expanded its classification of the outbreak to a worldwide pandemic. Federal, state, provincial and municipal governments in North America enacted measures to combat the spread of COVID-19. The COVID-19 outbreak continues to rapidly evolve, and is causing business disruptions across the entire global economy and society. The pandemic has had far-reaching impacts on businesses and individuals globally. For the time being and until economies stabilize, the Company 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 to 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 provided a business update and announced certain initiatives it had put forth in response to the impact of COVID-19. 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.

The Company is closely monitoring the evolution of COVID-19. As of the date hereof, the Company's operations have not been significantly impacted as the cannabis industry has been deemed an essential service in the states of California and Oregon since March 2020. Going forward, the extent of the impact of COVID-19 on the Company's operational and financial performance will depend on various developments, including the duration and magnitude of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and cannot be predicted. 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.

2.5 Summary of Significant Accounting Policies

The accounting policies applied in the preparation of the unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2020.

2.6 Financial Instruments

The Company classifies and measures financial instruments in accordance with IFRS 9, Financial Instruments. On initial recognition, a financial asset is classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI"), or amortized cost. Purchases and sales of financial assets are recorded on a settlement date basis.

2. Basis of Presentation (continued)

2.6 Financial Instruments (continued)

Subsequent to initial recognition, all investments are measured at fair value. All gains and losses arising from changes in fair value of the investments are presented in the Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss in the period in which the gain or losses arise. The Company will only reclassify a financial asset when the Company changes its business model for managing the financial asset. All reclassifications are recorded at fair value at the date of reclassification, which becomes the new carrying value.

i. Financial assets classified at fair value through profit and loss

Financial assets are classified as FVTPL if the asset is an equity investment, if the Company has not elected to classify investments as FVTOCI, or if the Company's business model for holding the investment is achieved other than by both collecting contractual cash flows and by selling the assets. As at March 31, 2021 and December 31, 2020, the Company did not have any financial assets at FVTOCI.

FVTPL assets are initially recorded at fair value with realized gains and losses on disposition and subsequent changes in fair value recorded in net loss. Directly attributable transaction costs are recorded in net loss as incurred.

ii. Non-derivative financial liabilities

Non-derivative financial liabilities are recognized initially on the date the Company becomes a party to the contractual obligations of the financial instrument. All non-derivative financial liabilities are recognized initially at fair value along with directly attributable transaction costs. Subsequent to initial measurement, non-derivative financial liabilities are measured at amortized cost using the effective interest method.

iii. Derivative financial instruments - warrants and options

A financial derivative such as warrants or options that will be settled with the Company's own equity instruments will be classified as an equity instrument if the derivative is to acquire a fixed number of the Company's own equity instruments for a fixed amount of U.S. dollars.

A financial derivative will be considered a financial liability at fair value through profit or loss if it is used to acquire a variable number of equity instruments and the options or warrants were not offered pro-rata to all existing owners of the class of non-derivative equity instruments.

The following table presents the Company's classification of financial assets and financial liabilities as at March 31, 2021:

Financial assets/ financial liability	**Classification**
Cash and cash equivalents	Amortized cost
Accounts receivable, net	Amortized cost
Deposits	Amortized cost
Other current assets	FVTPL
Investments	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Note payable and accrued interest	Amortized cost
Revolving credit facility	Amortized cost
Convertible notes payable	Amortized cost
Derivative liabilities	FVTPL

2. Basis of Presentation (continued)

2.6 Financial Instruments (continued)

The Company recognizes a provision for expected credit losses on financial assets that are measured at amortized cost. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due. The Company considers a financial asset to be in default either when the borrower is unlikely to pay its credit obligations to the Company is full, or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts.

The Company assesses all information available including, on a forward-looking basis, the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For accounts receivable only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, from the dates of the trade receivables, the Company recognizes a loss provision based on lifetime expected credit losses at each reporting date.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

2.7 Critical accounting estimates and judgments

The preparation of these unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised in any future periods affected. Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the unaudited condensed interim consolidated financial statements are described below.

2. Basis of Presentation (continued)

2.7 Critical accounting estimates and judgments (continued)

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.

2. Basis of Presentation (continued)

2.7 Critical accounting estimates and judgments (continued)

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

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

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

Provision for expected credit losses ("ECL")

Determining a provision for ECLs for accounts receivables held at amortized cost requires management to make assumptions about the historical patterns for the probability of default, timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

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

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

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

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and 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 or a CGU 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.

2. Basis of Presentation (continued)

2.7 Critical accounting estimates and judgments (continued)

Goodwill impairment

When determining the recoverable amount of the CGU or CGUs to which goodwill is allocated, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the condition for these judgments and estimates can significantly affect the recoverable amount.

Incremental borrowing rate for leases under IFRS 16

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

Leases

Each capitalized lease is evaluated to determine if the Company would exercise any of the renewal options offered. Several material factors are considered in determining if the renewal option would be exercised, such as length of the renewal, renewal rate, and ability to transfer locations.

Share-based payment arrangements

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.

2. Basis of Presentation (continued)

2.7 Critical accounting estimates and judgments (continued)

Income taxes

Income taxes and tax exposures recognized in the 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.

Provisions

The Company recognizes provisions if there is a present obligation (legal or constructive) that has arisen as a result of a past event, it is probable that the Company will be required to settle the obligation and the obligation can be reliably estimated. The Company's provision as at March 31, 2021 and December 31, 2020 relates to a provision for uncertain tax positions under Internal Revenue Code ("IRC") Section 280E for Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness Solutions Corp. ("SJW"). Many of the central issues relating to the interpretations of Section 280E remain unsettled, and there are critical accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowances as deductions under Section 280E). 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 the Company strongly disagrees with the positions taken by the Internal Revenue Service and the finding of the U.S. Tax Court, the Company has determined that a reserve for uncertain tax position should be recorded for all years subject to statutory review (Note 17). 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.

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 judgments 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, and are consistent with those used to evaluate impairment of goodwill and intangible assets as at March 31, 2021. Management believes there is sufficient capital to meet the Company's business obligations for at least the next twelve months, after taking into account expected cash flows and the Company's cash position at period-end.

2. Basis of Presentation (continued)

2.7 Critical accounting estimates and judgments (continued)

Going concern (continued)

As indicated in Note 17, the Company has recognized a provision for particular uncertain tax positions which are related to the PMACC and SJW business combination. 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 twelve months from the date that these financial statements were authorized to be issued. No payments related to any of the provision amounts are expected to be paid until 2022 or later. 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 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 for raise funds.

These 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.

2.8 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 amendments were effective for annual reporting periods beginning on or after January 1, 2020. The adoption of this standard did not have a material impact on the 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. This amendment was effective on January 1, 2020. The Company adopted this amendment in its consolidated financial statements for the annual period beginning January 1, 2020. The adoption of this standard did not have a material impact on the unaudited condensed interim consolidated financial statements.

(Expressed in United States Dollars, except share amounts)

2. Basis of Presentation (continued)

2.8 Adoption of New Accounting Policies (continued)

Business Combinations

On October 22, 2018, the IASB issued a narrow scope amendment to IFRS 3 Business Combinations. The amendment narrowed and clarified the definition of a business as well as permitted a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. This amendment is effective, and was adopted by the Company, on January 1, 2020. The amendments adopted in this standard were applied in the asset acquisition during the year ended December 31, 2020.

2.9 Recent Accounting Pronouncements

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

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 this amendment on the Company's unaudited condensed interim consolidated financial statements.

3. Accounts Receivable, net

The Company's accounts receivable, net are comprised of the following as at March 31, 2021 and December 31, 2020:

	March 31, 2021	December 31, 2020
Trade receivables	$ 1,659,750	$ 1,599,624
Sales tax receivables	296,534	575,099
Total	1,956,284	2,174,723
Provision for expected credit losses	(319,763)	(242,721)
Total accounts receivable, net	$ 1,636,521	$ 1,932,002

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for expected credit losses.

The Company provides trade credit to its wholesale customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for wholesale customers is assessed on a quarterly basis and a provision for expected credit losses is recorded where required. Credit risk is limited for receivables from retail customers as the majority of retail sales are transacted with cash. As at March 31, 2021 and December 31, 2020, there were $167,396 and $309,075, respectively, outstanding from debit card processors that is included within trade receivables.

(Expressed in United States Dollars, except share amounts)

3. Accounts Receivable, net (continued)

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

Activity in the provision for expected credit losses was as follows:

	March 31, 2021	December 31, 2020
Balance, beginning of period	$ 242,721	$ 37,672
Current year additions to provision for expected credit losses	77,042	208,601
Amounts reversed	-	(3,552)
Balance, end of period	$ 319,763	$ 242,721

The Company's aging of accounts receivable was as follows as at March 31, 2021 and December 31, 2020:

	March 31, 2021	December 31, 2020
Current	$ 725,136	$ 874,628
1 - 30 days	152,350	162,980
31 - 60 days	151,772	230,202
61 - 90 days	72,056	163,988
Over 90 days	854,970	742,925
Total	$ 1,956,284	$ 2,174,723

4. Inventories

The Company's inventory includes both purchased items and internally produced inventory. The Company's inventory was comprised of the following items as at March 31, 2021 and December 31, 2020:

	March 31, 2021	December 31, 2020
Raw materials	$ 792,528	$ 643,839
Work-in-process	1,076,872	931,910
Finished goods	2,082,129	2,210,100
Total	$ 3,951,529	$ 3,785,849

During the three months ended March 31, 2021 and 2020, inventory expensed to cost of goods sold was $6,483,177 and $8,701,214, respectively. Management determined net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

During the three months ended March 31, 2021, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of $261,442, which was recorded as a component of the cost of goods sold - wholesale. There was no impairment recorded during the three months ended March 31, 2020.

(Expressed in United States Dollars, except share amounts)

5. Biological Assets

Biological assets consist of cannabis plants. The changes in the carrying value of biological assets was as follows:

	March 31, 2021	December 31, 2020
Balance, beginning of period	$ 1,321,069	$ 1,167,125
Costs capitalized	2,121,515	9,702,306
Changes in fair value less costs to sell due to biological asset transformation	(717,230)	4,174,784
Transferred to inventory upon harvest	(1,875,568)	(13,723,146)
Balance, end of period	$ 849,786	$ 1,321,069

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

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

Biological assets as at March 31, 2021 and December 31, 2020 include an allocation of depreciation of $211,402 and $173,776, respectively.

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

		As at March 31, 2021		As at December 31, 2020	
	Assumptions:	**Input**	**10% change**	**Input**	**10% change**
i	Weighted average of expected loss of plants until harvest [a]	14%	$ 13,723	14%	$ 20,918
ii	Expected yields (dry grams of cannabis per plant) [b]	40 grams	$ 84,844	56 grams	$ 132,308
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	53%	$ 84,844	55%	$ 132,308
iv	Estimated selling price (per gram) [c]	$2.13 per gram dried flower $0.31 per gram dried trim	$ 155,772	$2.52 per gram dried flower $0.36 per gram dried trim	$ 218,046
v	After harvest cost to complete and sell (per gram)	$0.94 per gram dried flower $0.19 per gram dried trim	$ 70,928	$0.94 per gram dried flower $0.19 per gram dried trim	$ 85,738

[a] Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

(Expressed in United States Dollars, except share amounts)

5. Biological Assets (continued)

[b] Expected average yields for cannabis plants vary based on the mix of strains and number of plants existing at each reporting date. As at March 31, 2021 and December 31, 2020, it was expected the Company's biological assets would yield 24 and 26 grams of dried flower per plant, respectively, and 16 and 30 grams of dried trim per plant, respectively.

[c] The estimated selling price (per gram) represents the actual average sales price for the Company's strains sold as bulk products.

The Company estimates the harvest yields for cannabis at various stages of growth. As at March 31, 2021 and December 31, 2020, it is expected that the Company's biological assets will yield approximately 1,267,141 and 1,343,932 grams of dry cannabis flower, respectively, and 846,303 and 1,570,160 grams of dry trim, respectively, when harvested. The fair value adjustments on biological assets are presented separately on the Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss.

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

6. Prepaid Expenses

As at March 31, 2021 and December 31, 2020, prepaid expenses were comprised of the following:

	March 31, 2021	December 31, 2020
Excise taxes	$ 346,365	$ 273,447
Insurance and rent	512,519	471,530
Advances made to suppliers and consultants	202,318	248,369
Payroll and income taxes	89,152	281,540
Taxes and fees	21,096	6,923
Licenses and other	595,461	477,204
Total prepaid expenses	$ 1,766,911	$ 1,759,013

7. Other current assets

On December 18, 2020, the Company entered into a securities purchase agreement (the "FGW Agreement") to acquire a 50.1% interest in FGW (the "FGW Transaction"), with an initial ownership interest of 21% (refer to Note 3 of the audited consolidated financial statements for the year ended December 31, 2020). Upon closing of the FGW Transaction, FGW issued the Company a convertible note, in the principal amount of $1,265,000 (the "FGW Note"). The conversion option embedded in the FGW Note was determined to have a fair value of $450,069 as at December 31, 2020, which was recorded as a component of other current assets.

As at March 31, 2021, the Company used the Monte Carlo Simulation option-pricing model ("Monte Carlo model") to estimate the fair value of the conversion option and determined the fair value of the conversion option to be $691,544. The $241,475 change in fair value for the three months ended March 31, 2021 is included as a component of fair value gain in other current assets, derivative liabilities and preferred shares in the accompanying Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss.

(Expressed in United States Dollars, except share amounts)

8. Investments and Advances

The changes in investments and advances were as follows for three months ended March 31, 2021:

		Investments FVTPL	Total
Balance as at December 31, 2020		$ 250,000	$ 250,000
Additions	(a)	5,000,000	5,000,000
Interest accrued	(a)	53,426	53,426
Balance as at March 31, 2021		$ 5,303,426	$ 5,303,426

(a) Loudpack

On March 5, 2021, the Company, through one of its subsidiaries, purchased $5,000,000 of 15% Senior Secured Convertible Debentures (the "Debentures") of LPF JV, LLC ("Loudpack") maturing on December 31, 2022. The Loudpack Debentures bear interest at the rate of 15% and are secured by first and second priority liens on assets of Loudpack and its subsidiaries, as well as joint and several guarantees provided by direct and indirect subsidiaries of Loudpack and certain of its members. Prior to maturity, the Debentures are subject to both optional and mandatory conversion features as well as an optional redemption feature and additional restrictions imposed upon Loudpack by the Company pertaining to the ultimate use of the funds used to purchase the Debentures. The Debentures are also subject to an optional conversion feature at maturity.

Prior to maturity, the Debentures will be automatically converted to equity upon the closing of a qualified fundamental transaction ("Qualified Fundamental Transaction"), which is defined as (a) an initial public offering or reverse takeover transaction that: (i) yields net proceeds of not less than $25,000,000 in cash; (ii) with at least 80% of the net proceeds referenced in item (i) coming from parties that are not (A) insiders, (B) relatives or affiliates of insiders, or (C) in any way affiliated with Loudpack; (iii) is led by agreed upon investment banks; and (iv) is supported by a valuation opinion issued by a nationally recognized, independent investment bank, or (b) a merger or acquisition transaction involving an acquirer with a pre-transaction market capitalization of at least $500,000,000 and whose shares have a 60 day trailing average daily trading value of not less than $6,000,000, provided that any other merger or acquisition transaction shall be deemed a Qualified Fundamental Transaction upon a favorable vote by the holders of a majority of the principal amount of the Debentures. In the event that the Debentures are automatically converted upon the closing of a Qualified Fundamental Transaction, they will be automatically converted at the lower of: (i) the pre-conversion equity value implied by the Qualified Fundamental Transaction less a discount of 35%, or (ii) a pre-conversion equity cap of $212,500,000 prior to November 30, 2021, or $200,000,000 after November 30, 2021.

The Debentures may be converted prior to maturity, at the Company's option, in the event that Loudpack closes a qualified equity financing, in an amount of not less than $25,000,000, which is not considered to be a Qualified Fundamental Transaction, (a "Qualified Transaction"). If the Company were to exercise its option upon the closing of a Qualified Transaction, the Debentures would be converted at the lower of (i) the equity price of the Qualified Transaction less a discount of 35%, or (ii) a pre-conversion equity cap of $225,000,000 on a post conversion, fully diluted basis. In addition, prior to maturity Loudpack may be required to offer the Company an opportunity to redeem some or all of its Debenture holdings at par plus any accrued and unpaid interest in the event that Loudpack were to sell certain of its real estate assets.

Upon maturity, the Debentures are payable in cash at a price equal to par value plus accrued interest, or at the option of the Company may be converted into equity at a pre-conversion equity value of $225,000,000.

In conjunction with the investment in the Debentures by the Company, Andrew Sturner, a director of the Company was appointed as a board member by Loudpack.

(Expressed in United States Dollars, except share amounts)

8. Investments and Advances (continued)

As at March 31, 2021, the Company determined that the fair value of Debentures approximated the cash consideration at the time of the investment due to the proximity of the subscription at period end.

For the three months ended March 31, 2021, the Company accrued interest income of $53,426 related to the Loudpack Debentures.

9. Property, Plant and Equipment, net

As at March 31, 2021 and December 31, 2020, the Company's property, plant and equipment, net consisted of the following:

	Land	Agricultural buildings	Agricultural equipment	CIP	Furniture and fixtures	Vehicles	Office, computer and security equipment	Leasehold improvements	Total
At Cost									
As at December 31, 2019	$ 3,404,572	$ 8,900,403	$ 5,873,923	$ 2,559,952	$ 74,030	$ 29,530	$ 1,966,843	$ 2,540,247	$ 25,349,500
Additions	-	103,320	96,205	340,524	28,393	18,424	19,450	148,412	754,728
Disposals and transfers	-	-	(5,926)	-	-	(19,378)	(19,450)	-	(44,754)
Impairment loss	-	-	-	-	-	-	-	(2,283,557)	(2,283,557)
Reclass on completed phase of construction	-	2,064,770	-	(2,064,770)	-	-	-	-	-
As at December 31, 2020	3,404,572	11,068,493	5,964,202	835,706	102,423	28,576	1,966,843	405,102	23,775,917
Additions	-	-	-	660,606	-	-	-	66,929	727,535
As at March 31, 2021	$ 3,404,572	$ 11,068,493	$ 5,964,202	$ 1,496,312	$ 102,423	$ 28,576	$ 1,966,843	$ 472,031	$ 24,503,452
Accumulated depreciation									
As at December 31, 2019	-	1,213,484	1,610,257	-	19,223	11,765	557,662	153,094	3,565,485
Disposals	-	-	(198)	-	-	(11,945)	(2,342)	-	(14,485)
Impairment loss	-	-	-	-	-	-	-	(158,096)	(158,096)
Depreciation expense	-	733,485	1,172,347	-	15,092	7,354	385,549	159,579	2,473,406
As at December 31, 2020	-	1,946,969	2,782,406	-	34,315	7,174	940,869	154,577	5,866,310
Depreciation expense	-	184,476	298,551	-	3,658	1,790	76,316	7,726	572,517
As at March 31, 2021	$ -	$ 2,131,445	$ 3,080,957	$ -	$ 37,973	$ 8,964	$ 1,017,185	$ 162,303	$ 6,438,827
Net Book Value									
As at December 31, 2020	3,404,572	9,121,524	3,181,796	835,706	68,108	21,402	1,025,974	250,525	17,909,607
As at March 31, 2021	$ 3,404,572	$ 8,937,048	$ 2,883,245	$ 1,496,312	$ 64,450	$ 19,612	$ 949,658	$ 309,728	$ 18,064,625

Depreciation expense of $572,517 and $629,515 was recorded for the three months ended March 31, 2021 and 2020, respectively.

(Expressed in United States Dollars, except share amounts)

9. Property, Plant and Equipment, net (continued)

Depreciation expense relating to property, plant and equipment, net for the three months ended March 31, 2021 and 2020 was as follows:

	March 31, 2021	March 31, 2020
Cost of goods sold - wholesale	$ 513,132	$ 508,417
Expenses	59,385	121,098
Total depreciation and amortization relating to property, plant and equipment, net	$ 572,517	$ 629,515

10. Intangible Assets and Goodwill

There were no indicators of impairment during the period ended. A reconciliation of the beginning and ending balances of intangible assets and goodwill for the three months ended March 31, 2021 was as follows:

	Intangible Assets			
	Licenses	Trademark	Total	Goodwill
At Cost				
Balance as at December 31, 2020	$ 57,874,884	$ 46,666	$ 57,921,550	$ 14,366,055
Additions	-	-	-	-
Balance as at March 31, 2021	$ 57,874,884	$ 46,666	$ 57,921,550	$ 14,366,055
Accumulated Amortization				
As at December 31, 2020	$ -	$ 13,659	$ 13,659	$ -
Amortization	-	2,435	2,435	-
As at March 31, 2021	$ -	$ 16,094	$ 16,094	$ -
Net book value				
As at March 31, 2021	$ 57,874,884	$ 30,572	$ 57,905,456	$ 14,366,055

Amortization expense of $2,435 was recorded for the three months ended March 31, 2021.

11. Right-of-use Assets and Lease Liabilities

Right-of-use Assets

	Right-of-use Assets - buildings
Cost	
Balance as at December 31, 2020	$ 5,718,370
Additions	112,122
Balance as at March 31, 2021	$ 5,830,492
Accumulated amortization	
Balance as at December 31, 2020	$ 1,010,536
Amortization expense	152,288
Balance as at March 31, 2021	$ 1,162,824
Net book value	
As at December 31, 2020	4,707,834
As at March 31, 2021	$ 4,667,668

(Expressed in United States Dollars, except share amounts)

11. Right-of-use Assets and Lease Liabilities (continued)

Lease Liabilities

The Company's lease liabilities consist of various property leases used for the sale of cannabis products. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The incremental borrowing rate for the additions during the three months ended March 31, 2021 was 8.5%.

The following is a summary of the activity in the Company's lease liability for the three months ended March 31, 2021:

Balance as at December 31, 2020	$ 6,446,981
Lease payments	(365,650)
Lease modification	100,832
Interest expense	223,898
Ending lease liability	6,406,061
Less: current portion	(441,028)
Non-current lease liability	$ 5,965,033

The Company recognized no material expenses related to short-term leases and leases of low-value assets for the three months ended March 31, 2021.

12. Accounts Payable and Accrued Liabilities

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

The Company's accounts payable and accrued liabilities consist of the following as at March 31, 2021 and December 31, 2020:

	March 31, 2021	December 31, 2020
Accounts payable	$ 7,109,590	$ 7,061,561
Accrued liabilities	9,205,261	8,102,545
Accrued payroll	1,436,250	2,034,609
Total accounts payable and accrued liabilities	$ 17,751,101	$ 17,198,715

13. Note Payable and Accrued Interest

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

Subsequent to the sale of the Production Campus, the Company entered into a lease agreement (the "Lease") with CFP for the property and equipment located at the Production Campus. The Lease commenced on July 18, 2017, with a term of 108 full months expiring on July 18, 2026. The Company has the option to extend the term of the Lease for an additional three years.

(Expressed in United States Dollars, except share amounts)

13. Note Payable and Accrued Interest (continued)

The Lease grants the Company a call option to purchase the property under the terms set forth in the agreement. Beginning on the 37th month after the commencement of the Lease, and through the term of the Lease and any extension period, the Company has the ability to exercise its call option for two months, at every six-month interval. In the event that the Company desires to purchase the property prior to the 37th month after the commencement of the Lease, the Company may purchase the property subject to a make whole provision which guarantees the Landlord a 15.0% internal rate of return for the first three years. On February 25, 2021, the Company provided notice to CFP with its intent to exercise its call option to purchase the Production Campus.

The Lease also grants CFP a put option (the "put option") to sell the Production Campus under the terms set forth in the agreement. Beginning on the 85th month after commencement of the Lease, CFP has the option for two months, at every 12-month interval, to require that the Company purchase the Production Campus from CFP.

The Company did not account for the financing transaction as a sale in July 2017, in consideration of the call and put options included in the lease agreement. Further, the Company has continuing involvement for improving the Production Campus through construction initiatives for additional cultivation greenhouse space. Therefore, the Company's risk of loss had not transferred at the time of sale. The transaction was recorded as a financing arrangement for the $9,080,000 initially received as part of the agreement. Payments are applied over the term of the Lease, with the Company exercising their approximately $14,500,000 purchase option at the end of the Lease term. As a result of the put option, the transaction has been accounted for as a financing arrangement.

The effective interest rate after consideration of the Company's purchase option is 13.3%. The minimum payments included in the Lease are applied to interest over the course of the Lease with a final payment made at the end for the purchase of the Production Campus. Interest is accreted using the effective interest rate method during the Lease term based on the $9,080,000 loan and a purchase at the end of the Lease term. The balance includes $9,080,000 principal and accrued interest of $1,774,839 and $1,646,421 as at March 31, 2021 and December 31, 2020, respectively.

A reconciliation of the beginning and ending balance of the note payable and accrued interest for the three months ended March 31, 2021 and the year ended December 31, 2020 was as follows:

	March 31, 2021	December 31, 2020
Balance, beginning of period	$ 10,726,421	$ 10,204,744
Interest accruals	355,419	1,384,279
Interest cash payments	(227,001)	(862,602)
Balance, end of period	$ 10,854,839	$ 10,726,421

On February 25, 2021, the Company provided notice to CFP of its intent to exercise its call option to purchase the Production Campus.

14. Revolving Credit Facility

On March 19, 2021, the Company entered into a $12,000,000 senior secured revolving credit facility (the "Facility") with a federally regulated commercial bank (the "Bank").

The Facility matures on March 2023, has a variable interest rate based on the prime rate charged by the Bank plus a premium, with a floor rate of 5.75%, and is secured by a first-priority security interest on substantially all of the Company's assets. The Facility requires an interest reserve of $316,250, which is recorded as restricted cash in the accompanying Unaudited Condensed Interim Consolidated Financial Statements.

(Expressed in United States Dollars, except share amounts)

14. Revolving Credit Facility (continued)

As consideration for the Facility, the Company has, among other things: (i) delivered a commercial security agreement, an assignment of deposit account, and a security agreement in respect of cash collateral to the Bank; (ii) made an upfront cash payment based on the principal amount of the Facility to the Bank as an original issue discount; and (iii) issued 4,100 warrants to the Bank to purchase Multiple Voting Shares ("MVS"), which subject to certain conditions, are convertible into SVS at a conversion rate of 100 SVS for each MVS converted. Each warrant issued to the Bank entitles the Bank to one MVS of the Company at a price of C$369, at any time prior to March 19, 2023.

The Facility is subject to covenant clauses, whereby the Company is required to meet certain financial ratios. The Company has received a waiver from the bank in regards to these financial ratios for the period ended March 31, 2021.

The fair value of the warrants was determined using a Black-Scholes-Merton option pricing model with the following assumptions as at March 19, 2021:

Risk-free interest rate		0.17%
Exercise price - U.S. $	$	2.95
Share price - U.S. $	$	1.98
Expected volatility		131%
Expected remaining life		2 years
Fair value	$	466,716

The warrants are included as a component of deposits and other assets in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position. The warrants are amortized on a straight-line basis over the two-year term of the Facility. As at March 31, 2021, the warrants had an amortized cost of $456,922.

As at March 31, 2021, the outstanding balance less unamortized deferred financing costs was $316,400. As at March 31, 2021, unamortized deferred financing costs were $230,000.

Subsequent to March 31, 2021, the Company drew down $11,453,600 on the Facility (Note 29).

15. Convertible Debentures

Secured Convertible Notes

On August 29, 2018, Lineage Grow Company Ltd. ("Lineage") acquired Rosebuds Bakery, LLC d/b/a Terpene Station Eugene and Brooklyn Holding Co. d/b/a Terpene Station Portland, an Oregon-based cannabis retailer engaged in the selling of cannabis products (together, the "Terpene Acquisition"). As consideration paid for the Terpene Acquisition, Lineage issued secured convertible promissory notes (the "Secured Convertible Notes") to the seller in the aggregate amount of $800,000, issued in two separate notes with principal amounts of $400,000 each. In connection with the reverse takeover transaction ("RTO Transaction"), the Company assumed the Secured Convertible Notes. The Secured Convertible Notes are convertible, at the option of the holder, into SVS at a conversion price of C$0.35 per share multiplied by 41.818182 which equates approximately C$14.64. Interest will accrue on the principal amount at 12.0% per annum until the earlier of (a) repayment in full of the Secured Convertible Notes, or (b) on conversion.

The principal amount of the Secured Convertible Notes and all accrued and unpaid interest thereon is payable by the Company as follows:

(i) $150,000 payable on the first anniversary of the Secured Convertible Notes ("First Payment Due Date"), if the conversion option is not exercised 30 days before the First Payment Due Date (paid on October 29, 2019);

(ii) $150,000 payable on the second anniversary of the Secured Convertible Notes ("Second Payment Due Date"), if the conversion option is not exercised 30 days before the Second Payment Due Date (paid on October

(Expressed in United States Dollars, except share amounts)

15. Convertible Debentures (continued)

Secured Convertible Notes (continued)

6, 2020); and

(iii) The balance on the third anniversary of the Secured Convertible Notes, if the Conversion Option is not exercised 30 days before the three-year anniversary of the Secured Convertible Notes.

The Secured Convertible Notes, and the portion related to the conversion feature, are classified as liabilities. The conversion feature does not meet equity classification, as there are contractual terms that result in the potential adjustment of the conversion price. In failing the equity classification, the conversion feature was accounted for as an embedded derivative liability as its fair value is affected by changes in the fair value of the Company's SVS. On May 30, 2019, the host debt instrument was fair valued using a market rate of approximately 23.0% and the conversion feature was fair valued (Note 16). After initial recognition, the Secured Convertible Notes are accounted for at amortized cost, with the embedded derivative liability being measured at fair value, with changes in fair value being recorded in the Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss.

As at March 31, 2021 and December 31, 2020, changes to the Secured Convertible Notes was as follows:

Balance as at December 31, 2019	$ 589,506
Interest and accretion expense	34,402
Principal amount paid	(150,000)
Balance as at December 31, 2020	473,908
Interest and accretion expense	11,018
Balance as at March 31, 2021	$ 484,926

16. Derivative Liabilities

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

	Series D Warrant Liability (a)	Secured Convertible Notes Conversion Feature (b)	SVS Warrant and MVS Warrant Liability (c)	Total
Balance as at December 31, 2020	$ 16,842	$ 4,338	$ -	$ 21,180
Change in fair value of derivative liabilities	(16,830)	(4,276)	(1,621,993)	(1,643,099)
Fair value of derivative liabilities on issuance	-	-	14,532,072	14,532,072
Balance as at March 31, 2021	$ 12	$ 62	$ 12,910,079	$ 12,910,153

(a) Series D Offerings Warrant Liability

On May 17, 2019, pursuant to an agency agreement among FLRish Inc. ("FLRish"), AltaCorp Capital Inc. and FMI, a related party to the Company (Note 24), (together, the "Co-Lead Agents"), on behalf of a syndicate of agents (together with the Co- Lead Agents, the "Agents"), FLRish completed a brokered private placement offering (the "Brokered Concurrent Offering") of 2,508,434 subscription receipts (each, a "Subscription Receipt") at a price of C$7.00 per Subscription Receipt (the "Concurrent Offering Price") for gross proceeds of approximately $13,037,856 (C$17,559,038). In addition, FLRish completed a concurrent non-brokered offering of 298,547 Subscription Receipts for gross proceeds of $1,551,698 (C$2,089,829), on the same terms as the Brokered Concurrent Offering (the "Non-Brokered Concurrent Offering", and together with the Brokered Concurrent Offering, the "Concurrent Offering"). The aggregate gross proceeds of the Concurrent Offering were approximately $14,589,284 (CAD $19,648,867).

(Expressed in United States Dollars, except share amounts)

16. Derivative Liabilities (continued)

(a) Series D Offerings Warrant Liability (continued)

Each Subscription Receipt automatically converted into one share of FLRish Series D Common Stock (each, an "SR Share") and one FLRish warrant (each, a "Series D Warrant") immediately prior to and in connection with the completion of the RTO Transaction, without payment of any additional consideration and with no further action on the part of the holder. The Series D Warrants are governed by the terms of a warrant indenture dated May 17, 2019 among the Co-Lead Agents, FLRish, Lineage and Odyssey Trust Company, as warrant agent. Each Series D Warrant issued on conversion of the Subscription Receipts entitles the holder thereof to purchase one SR Share at an exercise price of C$8.75 per share until May 17, 2021, subject to adjustment in certain circumstances. On closing of the RTO Transaction, each SR Share and Series D Warrant issued on conversion of the Subscription Receipts was immediately exchanged for equivalent securities of Harborside, being one SVS and one warrant to purchase an SVS. As the exercise price of the Series D Warrants was denominated in a price other than the Company's functional currency, the warrant fails to meet the definition of equity and, accordingly, has been accounted for as a derivative liability.

The Company used the Monte Carlo model to estimate the fair value of the derivative liabilities at issuance and at each reporting date. The Monte Carlo model uses certain Level 2 inputs in its valuation model. The key Level 2 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the Company's SVS, (ii) the risk-free interest rate, and (iii) the expected life of the instruments. The risk-free interest rate is based on data from the Federal Reserve Statistical Release and is extrapolated for interim periods. The expected lives are based on the anticipated date of public listing. Volatility was calculated by using the stock price returns from the comparable public companies as there was insufficient trading history in the Company's shares.

Each SR Share and each Series D Warrant was immediately exchanged on closing of the RTO Transaction for equivalent securities of the Company, being one SVS and one warrant to purchase one SVS, respectively.

The following assumptions were used to value the Series D Warrants liabilities as at March 31, 2021 and December 31, 2020:

		March 31, 2021		**December 31, 2020**
Risk-free interest rate		0.09%		0.09%
Exercise price - U.S. $	$	6.97	$	6.84
Share price - U.S. $	$	1.90	$	1.53
Expected volatility		85.20%		104.90%
Expected remaining life		0.13 year		0.38 year
Fair value	$	12	$	16,842

(b) Secured Convertible Note Conversion Feature

As part of the RTO Transaction, the Company assumed Secured Convertible Notes (Note 15). The fair value of the conversion feature was determined using a Black-Scholes-Merton option pricing model with the following assumptions as at March 31, 2021 and December 31, 2020:

	March 31, 2021	**December 31, 2020**
Share price - CAD $	CAD$2.38	CAD$1.96
Conversion price - CAD $	CAD$14.64	CAD$14.64
Expected remaining life	0.41 year	0.66 year
Volatility	74.16%	89.16%
Risk-free interest rate	0.03%	0.09%

(Expressed in United States Dollars, except share amounts)

16. Derivative Liabilities (continued)

(b) Secured Convertible Note Conversion Feature (continued)

The Secured Convertible Notes, and the portion related to the conversion option, are classified as liabilities. The conversion feature does not meet equity classification, as there are contractual terms that result in the potential adjustment in the conversion price. In failing the equity classification, the conversion feature was accounted for as an embedded derivative liability as its fair value is affected by changes in the fair value of the Company's SVS. The effect is that the Secured Convertible Notes are accounted for at amortized cost, with the embedded derivative liability being measured at fair value with changes in value being recorded in profit or loss.

(c) Private Placement Offering of SVS Warrants and MVS Warrants

On February 18, 2021, the Company issued SVS Warrants (as defined below) and MVS Warrants (as defined below) (collectively, the "Warrants"), in connection with an upsized brokered private placement of units.

The Company used the Monte Carlo model to estimate the fair value of the derivative liabilities at issuance and at each reporting date. The Monte Carlo model uses certain Level 2 inputs in its valuation model. The key Level 2 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the Company's SVS, (ii) the risk-free interest rate, and (iii) the expected life of the instruments. The risk-free interest rate is based on data from the Federal Reserve Statistical Release and is extrapolated for interim periods. The expected lives are based on the anticipated date of public listing. Volatility was calculated by using the stock price returns from the comparable public companies as there was insufficient trading history in the Company's shares.

The following assumptions were used to value the SVS Warrants as at March 31, 2021 and February 18, 2021:

	March 31, 2021	February 18, 2021
Risk-free interest rate	0.50%	0.35%
Exercise price - CAD	C$3.69	C$3.69
Share price - CAD	C$2.38	C$2.65
Expected volatility	115.20%	111.40%
Expected remaining life	2.88 years	3 years
Fair value - CAD	C$6,851,906	C$7,780,978

The following assumptions were used to value the MVS Warrants as at March 31, 2021 and February 18, 2021:

	March 31, 2021	February 18, 2021
Risk-free interest rate	0.50%	0.35%
Exercise price - CAD	C$369	C$369
Expected volatility	115.20%	111.40%
Expected remaining life	2.88 years	3 years
Fair value - CAD	C$9,383,101	C$10,670,104

17. 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 Controlled Substances Act) from deducting ordinary and necessary business expenses. This can result in permanent tax differences resulting from normal business expenses which are deemed non-allowable under IRC Section 280E. Many of the central issues relating to the interpretation of Section 280E remain unsettled, and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E). IFRIC 23 - *Uncertainty over Income Tax Treatments* provides guidance that adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the positions taken by the Internal Revenue Service and the findings of the U.S. Tax Court, the Company has determined that a reserve for an uncertain tax position should be recorded for all years subject to statutory review.

The Company has engaged outside counsel in an attempt to successfully negotiate the settlement and subsequent payment of its potential liabilities under IRC Section 280E, but does not currently expect any resultant potential liabilities or any possible payments resulting from the cases to be resolved within 12 months of the issuance of these unaudited condensed interim consolidated financial statements.

Although the Company, as described above, is actively engaged in working towards a settlement agreement and subsequent repayment plan with the Internal Revenue Service, an uncertain tax position has been recorded based on the unknown outcome of the settlement discussions. As at March 31, 2021, the reserve totaled $38,126,442 (December 31, 2020 - $37,758,875), a sum which includes the separate tax proceedings described below.

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 Tax Court held that the expenses were ordinary and substantiated business expenses but, because PMACC's business consists of trafficking in a Schedule I controlled substance, the expenses must be disallowed. On October 21, 2019, after a review process under Rule 155, the Tax Court determined that PMACC's total liability was $11,013,237 plus accrued interest. In its ruling, the Tax Court rejected the assertion of penalties by the Internal Revenue Service ("IRS"), finding that the unsettled state of the law and the fact that PMACC acted reasonably and in good faith, meant that penalties under IRC 6661(a) would be inappropriate. Accordingly, management has not included penalties in the estimated provision at period end. In December 2019, PMACC appealed the Tax Court decision to the United States Court of Appeals for the Ninth Circuit, which heard oral arguments in the case on February 9, 2021 and affirmed the Tax Court decision on April 22, 2021 (Note 29).

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

(Expressed in United States Dollars, except share amounts)

17. Provisions (continued)

SJW

SJW is involved in two pending U.S. Tax Court cases. The first case involves the 2010, 2011, and 2012 tax years, and in this case, the IRS asserted a tax deficiency of $2,120,215. The second case involves the 2014 and 2015 tax years and in the second case the IRS asserted that SJW owed an additional $2,064,363 in taxes and penalties. Both of these proceedings involve substantially the same issues as the PMACC cases.

On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to the cases for SJW. The Company accrued an additional $523,600 related to the 2015 tax year as at December 31, 2020 based on the deficiencies assessed by the court.

The Company appealed the Tax Court decisions on May 14, 2021 (Note 29).

18. General and Administrative Expenses

For the three months ended March 31, 2021 and 2020, general and administrative expenses consisted of the following:

	March 31, 2021	March 31, 2020
Advertising and promotion	$ 157,099	$ 137,520
Bad debt expense	-	5,000
Banking and processing fees	230,964	189,366
Other general administrative	11,656	18,470
Office and general expenses	1,016,859	1,018,992
Salaries and benefits	2,740,600	2,605,155
Taxes and licenses	133,814	60,968
Travel and entertainment	33,074	88,359
Total	$ 4,324,066	$ 4,123,830

19. Income Taxes

Harborside Inc. will be treated as a U.S. corporation for U.S. federal income tax purposes under IRC Section 7874 and be subject to U.S. federal income tax. However, for Canadian tax purposes, the Corporation is expected, regardless of any application of IRC Section 7874, to be treated as a Canadian resident company (as defined in the ITA) for Canadian income tax purposes. As a result, the Corporation will be subject to taxation both in Canada and the U.S. Notwithstanding the foregoing, it is management's expectation that Harborside's activities will be conducted in such a manner that income from operations will be not subject to double taxation.

The Company's income tax expense allocated for the three months ended March 31, 2021 and 2020 was follows:

	March 31, 2021	March 31, 2020
Current tax	$ 1,253,495	$ 1,090,339
Deferred tax	(178,243)	340,488
Income tax expense	$ 1,075,252	$ 1,430,827

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

(Expressed in United States Dollars, except share amounts)

19. Income Taxes (continued)

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Of the $16,007,414 net deferred tax liability as at March 31, 2021, approximately $15,500,000 relates to temporary differences associated with intangible assets recorded on the acquisitions of PMACC, SJW and the RTO Transaction with Lineage.

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

Movements in the net deferred tax liabilities during the three months ended March 31, 2021 was as follows:

Balance, beginning of period	$(16,185,657)
Recognized in loss	178,243
Balance, end of period	$(16,007,414)

20. Share Capital

The following is a reconciliation of the issued and outstanding shares as at March 31, 2021:

	Subordinate Voting Shares (SVS)	**Multiple Voting Shares (MVS)**
Balance, December 31, 2019	19,020,504	230,772.07
Conversion of MVS to SVS	6,132,450	(61,324.50)
Issuance of new shares	-	9,648.85
Issuance on exercise of options	848,654	-
Issuance on settlement of restricted share awards	534,000	-
Balance, December 31, 2020	26,535,608	179,096.42
Conversion of MVS to SVS	1,700,000	(17,000.00)
Issuance of new shares	5,806,700	79,592.00
Issuance on exercise of options	468,750	-
Issuance on settlement of restricted share awards	-	1,600.00
Balance, March 31, 2021	34,511,058	243,288.42

On February 18, 2021, the Company closed its upsized brokered private placement of units at a price of C$2.55 per SVS Unit (as defined below) and C$255.00 per MVS Unit (as defined below) for aggregate gross proceeds of C$35,103,045 (the "Offering"). Beacon Securities Limited and ATB Capital Markets acted as co-lead agents in connection with the Offering (the "Agents").

Each unit issued to nonresidents of the U.S. (each, an "SVS Unit") was comprised of one SVS and one SVS purchase warrant (each, an "SVS Warrant"). Each SVS Warrant is exercisable to acquire one SVS of the Company for a period of 36 months following the close of the Offering at an exercise price of C$3.69 per SVS, subject to adjustment and acceleration in certain events. A total of 5,806,700 SVS Units were issued pursuant to the Offering.

All investors that are considered residents of the U.S were issued units (each, an "MVS Unit") comprised of MVS of the Company and MVS purchase warrants (each, an "MVS Warrant"), based on the same economic equivalency of each MVS converting into 100 SVS. The holders of Multiple Voting Shares are entitled to one vote in respect of each SVS into which such MVS could be converted. A total of 79,592 MVS Units were issued pursuant to the Offering.

20. Share Capital (continued)

The SVS Warrants and MVS Warrants were valued at $6,128,298 and $8,403,774, respectively, based on an implied share price of C$1.34 and C$134.06, respectively, valued based on the Monte Carlo model. The key assumptions used have been discussed in Note 16.

In consideration for their services, the Company paid the Agents a cash commission equal to C$1,451,340 and issued the Agents an aggregate of 569,154 Broker Warrants ("Broker Warrants"). Each Broker Warrant is exercisable until February 18, 2022 into one SVS Unit (each comprised of one SVS and one SVS Warrant) at an exercise price of C$2.55 per SVS Unit. Upon exercise of a Broker Warrant, each underlying SVS Warrant is exercisable at C$3.69 per SVS Warrant until February 18, 2024.

The Broker Warrants were valued at $1,134,112 based on an implied share price of C$2.53 valued based on the Monte Carlo model. The key assumptions used have been discussed in Note 22.

As certain insiders and other related parties of the Company participated in the Offering, it is deemed to be a "related party transaction" as defined under Multilateral Instrument 61-101— Protection of Minority Security Holders in Special Transactions ("MI 61-101"). The Offering is exempt from the formal valuation and minority shareholder approval requirements of MI 61- 101 (pursuant to subsections 5.5(a) and 5.7(a)) as the fair market value of the securities distributed to, and the consideration received from, related parties did not exceed 25% of the Company's market capitalization.

The total share issuance costs related to the Offering was C$1,756,873, which includes the commission noted above and other professional fees.

21. Contributed Surplus

Stock Options

Prior to June 30, 2020, the Company maintained an equity incentive plan (the "Plan") whereby certain key employees, officers, directors, consultants and advisors could be granted stock options, RSAs, restricted share units, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

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

On June 30, 2020, the Company adopted a new equity incentive plan (the "New Plan") whereby certain key employees, officers, directors, consultants and advisors may be granted stock options, RSAs, restricted share units, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

The stock options awarded under the New Plan vest in accordance with the terms established by the Board at the time of grant. The New Plan was ratified by the Company's shareholders on November 24, 2020.

(Expressed in United States Dollars, except share amounts)

21. Contributed Surplus (continued)

The following table summarizes the stock option activities for the three months ended March 31, 2021 and the year December 31, 2020:

	Number of options outstanding	Weighted average exercise price $
Balance, December 31, 2019	4,305,901	1.66
Options exercised	(848,654)	0.05
Options expired	(296,349)	0.05
Options granted	3,475,000	0.76
Balance, December 31, 2020	6,635,898	1.58
Options exercised	(468,750)	0.05
Options expired	(647,500)	3.17
Balance, March 31, 2021	5,519,648	1.35

During the three months ended March 31, 2021, the Company recorded negative aggregate share-based compensation of $(1,000) due to forfeiture reversals and an adjustment for previously accelerated options. During the three months ended March 31, 2020, the Company recorded an aggregate share-based compensation of $101,611 for all stock options vesting during this period. During the three months ended March 31, 2021 and 2020, the Company received cash consideration of $24,094 and $7,264, respectively, for the exercise of 468,750 and 145,277 vested options, respectively.

As at March 31, 2021, the Options outstanding and exercisable for SVS and with the corresponding exercise price and weighted average remaining life was as follows:

Date of grant	Expiry date	Number of options outstanding	Number of options exercisable		Exercise price (USD)	Weighted average remaining life
September 1, 2020	April 15, 2021	62,500	62,500	$	0.755	0.29
September 30, 2020	September 30, 2021	300,000	300,000	$	0.867	0.50
August 1, 2016	November 24, 2021	1,927	1,927	$	0.050	0.65
July 26, 2017	November 24, 2021	20,000	20,000	$	0.050	0.65
April 25, 2018	November 24, 2021	24,000	24,000	$	4.150	0.65
May 24, 2018	November 24, 2021	4,783	4,783	$	8.310	0.65
December 14, 2018	November 24, 2021	7,174	7,174	$	5.487	0.65
September 1, 2020	November 24, 2021	610,000	610,000	$	0.755	0.65
July 5, 2019	July 5, 2022	493,750	493,750	$	0.055	1.26
May 24, 2018	May 24, 2023	14,946	14,946	$	8.310	2.15
December 14, 2018	December 14, 2023	11,141	11,141	$	5.487	2.71
September 1, 2020	September 1, 2025	1,475,000	898,750	$	0.755	4.42
December 23, 2020	December 23, 2025	840,000	-	$	1.455	4.73
August 1, 2016	August 1, 2026	325,650	325,650	$	0.050	5.34
July 26, 2017	July 27, 2027	116,735	110,485	$	0.050	6.32
December 4, 2017	December 4, 2027	27,375	27,375	$	4.150	6.68
April 25, 2018	April 25, 2028	791,667	779,167	$	4.150	7.07
May 7, 2018	May 7, 2028	15,000	15,000	$	4.150	7.11
May 15, 2018	May 15, 2028	308,000	308,000	$	0.622	7.13
June 25, 2018	June 25, 2028	10,000	10,000	$	4.150	7.24
September 12, 2018	September 12, 2028	50,000	50,000	$	4.150	7.46
November 7, 2018	November 7, 2028	10,000	10,000	$	5.310	7.61
Total		5,519,648	4,084,648			4.14

(Expressed in United States Dollars, except share amounts)

21. Contributed Surplus (continued)

The weighted average remaining contractual life of outstanding options as at March 31, 2021 is 4.14.

Restricted Stock Awards

No RSAs were granted during the three months ended March 31, 2021 and 2020. During the year ended December 31, 2020, 534,000 of the original 769,000 RSAs granted in 2018 were issued. The remaining balance of RSAs as at March 31, 2021 was 235,000.

The fair value on the grant date of the RSAs was measured at $2,614,000 (or $3.40 per RSA), using the Monte Carlo model taking into account the fair value of the Company's stock on the date of grant and into the future, encompassing a wide range of assumptions and possible future market conditions. During the three months ended March 31, 2020, the Company recorded share-based compensation expense of $4,547, in relation to the vesting of the RSAs. There was no expense recorded during the three months ended March 31, 2021.

22. Reserve for Warrants

The activity for warrants outstanding for the three months ended March 31, 2021 and the year ended December 31, 2020, is summarized as follows:

	Subordinate Voting Shares		
	Number of warrants outstanding	**Weighted average exercise price CAD**	**Weighted average exercise price USD**
Balance, December 31, 2019	7,577,086	8.75	6.57
Warrants expired	(3,989,124)	8.60	6.65
Warrants expired	(308,662)	13.40	10.53
Balance, December 31, 2020	3,279,300	8.49	6.67
Issuance of SVS Warrants	5,806,700	3.69	2.93
Issuance of Broker Warrants	569,154	2.55	2.03
Balance, March 31, 2021	9,655,154	5.25	4.18

	Multiple Voting Shares		
	Number of warrants outstanding	**Weighted average exercise price**	**Weighted average exercise price USD**
Balance, December 31, 2020	-	-	-
Issuance of MVS Warrants	79,592	369.00	293.43
Issuance of warrants to the Bank	4,100	369.00	293.43
Balance, March 31, 2021	83,692	369.00	293.43

There were no warrants issued during the year ended December 31, 2020.

See Note 21 in the Company's previously filed audited consolidated financial statements for the year ended December 31, 2020 for further information of outstanding warrants.

(Expressed in United States Dollars, except share amounts)

22. Reserve for Warrants (continued)

Warrants

On February 18, 2021, the Company issued 5,806,700 SVS and 79,592 MVS Warrants in connection with the Offering (Note 20). Each SVS Warrant entitles the holder thereof to purchase one SVS of the Company at an exercise price of C$3.69 per share until February 18, 2024. Each MVS Warrant entitles the holder thereof to purchase on MVS of the Company at an exercise price of C$369 per share until February 18, 2024.

The SVS and MVS Warrants are being accounted for as a derivative liability (Note 16).

On March 19, 2021, the Company issued 4,100 warrants to purchase MVS to the Bank in connection with the Facility (Note 14), exercisable at a price of C$369 per MVS, at any time prior to March 19, 2023. The warrants issued to the bank are being accounted for as other assets and amortized on a straight-line basis over the two-year term of the Facility.

Broker Warrants

As detailed in Note 20, the Company issued 569,154 Broker Warrants to the Agents as compensation in connection with the Offering. Each Broker Warrant is exercisable until February 18, 2022 into one SVS Unit (each comprised of one SVS and one SVS Warrant) at an exercise price of C$2.55 per SVS Unit. Upon exercise of a Broker Warrant, each underlying SVS Warrant will be issued and will be exercisable at C$3.69 per share until February 18, 2024.

The Broker warrants were valued based on the Monte Carlo model at the date of measurement with the following assumptions:

	February 18, 2021
Risk-free interest rate	0.35%
Exercise price - CAD	C$2.55
Share price - CAD	C$2.65
Expected volatility	111.40%
Expected remaining life	1 year
Fair value - CAD	C$1,439,960

The following table summarizes information of warrants outstanding as at March 31, 2021:

Date of expiry	Number of warrants outstanding	Weighted Average Exercise price (CAD)	Weighted Average Exercise price (USD)	Weighted average remaining life
May 17, 2021	2,806,981	8.75	6.96	0.13
May 17, 2021	160,775	7.00	5.57	0.13
June 10, 2021	311,544	6.90	5.49	0.19
March 19, 2023	4,100	369.00	293.43	1.97
February 18, 2024	5,806,700	3.69	2.93	2.89
February 18, 2022	569,154	2.55	2.03	0.89
February 18, 2024	79,592	369.00	293.43	2.89
Total	9,738,846	4.53	3.60	2.30

(Expressed in United States Dollars, except share amounts)

22. Reserve for Warrants (continued)

To calculate the weighted average exercise price and weighted average remaining life all MVS warrants are multiplied by 100.

23. Net loss per share

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

For the purposes of determining the net loss per share, historical financial statements of the legal acquiree ("accounting acquirer") are presented to retroactively adjust the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree. Accordingly, for purposes of calculating the weighted average number of shares outstanding for the three months ended March 31, 2021 and 2020, the number of shares outstanding are retroactively adjusted to reflect the legal capital of the accounting acquiree. For purposes of calculating loss per share, the dilutive effect of outstanding MVS is converted into 100 SVS on a weighted-average basis for the number of days the MVS' are outstanding.

The following is a reconciliation for the calculation of basic and diluted earnings per share for the three months ended March 31, 2021 and 2020:

	March 31, 2021	March 31, 2020
Net loss and comprehensive loss	$ (2,910,749)	$ (2,387,136)
Dilutive weighted average number of shares outstanding	51,045,299	49,432,795
Basic and diluted earnings per share	$ (0.06)	$ (0.05)

24. Related Party Transactions and Key Management Compensation

(a) Key Management Compensation

Key management includes directors and officers of the Company. Total compensation (comprised of salaries, benefits, one-time bonuses and share-based compensation) awarded to key management for the three months ended March 31, 2021 and 2020 was as follows:

	March 31, 2021	March 31, 2020
Short-term employee benefits, including salaries and director fees	$ 338,897	$ 565,133
Share-based compensation - Directors and Executives	140,771	102,331
Total	$ 479,668	$ 667,464

As at March 31, 2021, there were no amounts owed to Peter Bilodeau, Interim-Chief Executive Officer ("CEO") or Emtra Business Services, Inc., a company controlled by Mr. Bilodeau through which Mr. Bilodeau is compensated for his services as the Interim CEO of the Company (December 31, 2020 - $26,250).

As at March 31, 2021, there were no amounts owed to Steve DeAngelo, former CEO and director of FLRish and former Chairman Emeritus of the Company (December 31, 2020 - $nil). On December 31, 2020, Mr. DeAngelo separated from the Company. As at December 31, 2020, the Company accrued estimated severance payments of $829,162 as a component of accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

As at March 31, 2021, there were no amounts owed to Greg Sutton, the former Chief Operating Officer of Cultivation and Manufacturing of the Company (December 31, 2020 - $2,463).

24. Related Party Transactions and Key Management Compensation (continued)

(a) Key Management Compensation (continued)

As at March 31, 2021, $4,441 was owed to Newhouse Development LLC, a company controlled by Tom DiGiovanni, the Chief Financial Officer ("CFO"), through which Mr. DiGiovanni is compensated for his services as CFO of the Company (December 31, 2020 - $35,604).

All amounts outstanding are unsecured, non-interest bearing and due on demand.

(b) Related Parties

Nutritional High International Inc. ("Nutritional High")

Adam Szweras, a former director of the Company, serves as the Chairman of the Board of Directors of 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 three months ended March 31, 2021, the Company made purchases at arm's-length market rates in the amount of $48,522 (2020 - $81,682) from a subsidiary of Nutritional High. As at March 31, 2021, an amount of $66,680 (December 31, 2020 - $169,350), was owed from Calyx and included in accounts receivable, net in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

Flow Cannabis Co.

Kevin Albert, a director of the Company, serves as the director on the board of Flow Cannabis Co. (formally Flow Kana Inc.), a California Company that offers a wide range of California's cannabis CPG brands. During the three months ended March 31, 2021, the Company made purchases at arm's length market rates in the amount of $833 (2020 - $40,530). As at March 31, 2021, an amount of $1,695 (December 31, 2020 - $6,705) owing to Flow Cannabis Co. was included in accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

Entourage Effect Capital

Matthew Hawkins and Andrew Sturner, directors of the Company, are partners of Entourage Effect Capital (formerly known as Cresco Capital Partners) ("Entourage").

Entourage in an investor in Sublime Canna. During the three months ended March 31, 2021, the Company made purchases at arm's length market rates in the amount of $84,475 (2020 - $nil). As at March 31, 2021, an amount of $40,904 (December 31, 2020 - $56,788) owing to Sublime was included in accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position. Additionally, during the three months ended March 31, 2021, Sublime made purchases at arm's length market rates in the amount of $227,810 (March 31, 2020 - $nil) from the Company. As at March 31, 2021, $103,975 (December 31, 2020, a credit of $39,914) was included in accounts receivable, net in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

Branson Corporate Services Ltd.

Branson Corporate Services Ltd. ("Branson"), provides finance, accounting and administrative services to the Company. Mr. Bilodeau holds a 16% ownership interest in Branson. During the three months March 31, 2021, the Company was charged $42,649 (2020 - $33,494) for services provided by Branson, which is included in professional fees in the Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss. As at March 31, 2021, an amount of $nil (December 31, 2020 - $15,975) owing to Branson was included in accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

24. Related Party Transactions and Key Management Compensation (continued)

(b) Related Parties (continued)

Black Oak Ventures

On April 10, 2020, Black Oak Ventures Ltd. ("Black Oak"), an entity where its principal is an immediate family member of Mr. Bilodeau, entered into a consulting agreement to provide certain investor relations services to the Company in exchange for cash compensation. During the three months ended March 31, 2021, the Company was charged $18,000 for services provided by Black Oak, which is included in professional fees in the Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss. As at March 31, 2021, there were no amounts owed to Black Oak (December 31, 2020 - $12,602).

Pursuant to the Offering (Note 20), the principal of Black Oak, an immediate family member of Mr. Bilodeau, subscribed for 19,600 SVS Units at C$2.55 per unit for a total of $38,990 (C$49,980).

Related Party Participation in the Offering

Certain directors, officers and insiders participated in the Offering (Note 20) as follows: (i) Peter Bilodeau, Interim CEO of the Company, subscribed for 58,800 SVS Units at a price of C$2.55 per unit for a total of $116,696 (C$149,940); (ii) Tom DiGiovanni, CFO of the Company, subscribed for 307 MVS Units at a price of C$255 per unit for a total of $61,070 (C$78,285); (iii) Peter Kampian, a director of the Company, subscribed for 39,200 SVS Units at a price of C$2.55 per unit for a total of $77,979 (C$99,960); (iv) Andrew Sturner, a director of the Company, participated in the offering through Orange Island Ventures, LLC, which subscribed for 1,251 MVS Units at a price of C$255 per MVS Unit for a total of $248,857 (C$319,005); James Scott, a director of the Company, participated in the Offering through Littlehorn Investments LLC, which subscribed to 1,600 MVS Units at a price of C$255 per unit for a total of $318,283 (C$408,000); and (vi) Cresco Capital Partners II, LLC, an entity doing business as Entourage Effect Capital, which is controlled and directed by Matthew Hawkins and Andrew Sturner, directors of the Company, subscribed for 35,500 MVS Units at a price of C$255 per MVS Unit for a total of $7,061,893 (C$9,052,500). Both Mr. Hawkins and Mr. Sturner are partners of Entourage Effect Capital.

Legal Transactions

For the three months ended March 31, 2020, Aird & Berlis LLP ("Aird & Berlis"), a law firm of which Sherri Altshuler, a former director of Harborside, is a partner, billed the Company $89,522 for legal services, an amount which is recorded as professional fees in the Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss. As at December 31, 2020, an amount of $548,654 owing to Aird & Berlis was included in accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

For the three months ended March 31, 2020, Fogler, Rubinoff LLP ("Fogler"), a law firm in which Mr. Szweras is a partner, provided a credit of $5,101 for legal services previously provided to the Company, which was netted against professional fees in the Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss. As at December 31, 2020, there were no amounts owed to Fogler.

(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.

24. Related Party Transactions and Key Management Compensation (continued)

(c) Other Related Parties (continued)

On September 1, 2020, the Company entered into a promissory note and pledge agreement with Mr. Nichols, in the amount of $100,000. The note bears interest at a rate of 4.0% per annum. Principal and accrued interest are due at maturity on March 31, 2021. The maturity date may be extended by 90 days at the option of the Company. On March 12, 2021, the Company extended the maturity date to June 30, 2021. The balance outstanding as at March 31, 2021 and December 31, 2020 was $102,323 and $101,337, respectively. The note, plus all accrued interest, was repaid in full on May 25, 2021 (Note 29).

25. Commitments and Contingencies

IRC Section 280E

Many of the central issues relating to the interpretation of IRC Section 280E remain unsettled and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E) that have never been addressed by any Treasury regulation or court case. IFRIC 23 - *Uncertainty over Income Tax Treatments* provides guidance that adds to the requirements in IAS 12, Income Taxes, by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the Internal Revenue Service and the U.S. Tax Court, determined that a reserve for an uncertain tax position should be recorded. As at March 31, 2021 and December 31, 2020, the reserve totaled $38,126,442 and $37,758,875, respectively. On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to SJW to disallow all of SJW's deductions pursuant to IRC Section 280E for all the years at issue. On May 14, 2021, the Company appealed the Tax Court ruling (Note 29).

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 Agreements

On December 31, 2020, the Company eliminated the role of Chairman Emeritus and terminated the employment agreement with Mr. Steve DeAngelo (the "Termination"). Pursuant to the terms of the Termination, Mr. DeAngelo is eligible to receive severance payments in the form of salary and certain related benefits, plus payment by the Company of agreed upon expenses incurred by Mr. DeAngelo prior to Termination. Payments related to the Termination will become due over a period of 24 months from the Termination.

25. Commitments and Contingencies (continued)

San Leandro Wellness Solutions Inc. ("SLWS")

On August 21, 2020, the Company's subsidiary, SLWS, pursuant to a prior agreement, commenced a demand for arbitration and relief against Agustin J. Lopez, Diana G. Lopez and KSJ Development LLC ("Defendants") with respect to a number of alleged violations of the terms and conditions of the property lease between SLWS and the Defendants. On September 8, 2020, the Defendants filed its response to SLWS's demand for arbitration, and also asserted a number of counterclaims against SLWS. Defendants also interposed an action for unlawful detainer in relation to its counterclaims against the Company. Arbitration of the matter was scheduled for March 29, 2021, with the parties each undertaking pre-arbitral discovery prior to arbitration. On March 30, 2021, the court ruled against SLWS and entered a judgment. On April 1, 2021, the Company filed a request for temporary stay of eviction. The request for a stay was granted and the parties mutually agreed to stay the eviction until May 15, 2021. On April 26, 2021, the Company entered into a settlement agreement with the landlord which included extending the lease until October 31, 2021 and authorizing adult retail sales on the premises for the duration of the lease (Note 29).

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 17,2020 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 ATDS issue.

On April 1, 2021 the Supreme Court issued its decision in the Facebook case, narrowly interpreting ATDS. The Court held, "Congress' definition of an autodialer requires that in all cases, whether storing or producing numbers to be called, the equipment in question must use a random or sequential number generator." Though not dispositive, the Company believes the ruling is favorable to its defense. The parties participated in another case management conference on May 7, 2021. At the May 7, 2021 case management conference, the Court lifted the stay on class-related discovery that the Court had previously imposed on July 17, 2020. The parties continue to engage in pre-trial discovery. A trial date remains to be set.

25. Commitments and Contingencies (continued)

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. On or about October 6, 2020, plaintiff and the Company agreed to mediation of the case, with mediation scheduled for May 4, 2021. At the May 4, 2021 mediation, the parties did not reach a settlement agreement, however, the parties agreed to continue discovery. As of the date of the unaudited condensed interim consolidated financial statements, no follow-up mediation date has been set.

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.

Shahrohkimanesh v. Harborside, Inc. et al.

In September 2020, the Company became aware of a complaint filed by putative class representative Ms. Rihanna Shahrohkimanesh in the U.S. Federal District Court for the District of Oregon. On October 13, 2020, the Company was formally served with a complaint and related summons. The complaint alleges violations of the U.S. Securities Exchange Act of 1934 (15 USC §§ 78j(b) and 78t(a) and Rule 10b-5 promulgated thereunder (17 CFR § 240.10b-5)) and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Ms. Shahrohkimanesh. On January 21, 2021, the Company announced that the complaint filed by Ms. Rihanna Shahrohkimanesh was voluntarily dismissed by plaintiff in its entirety without prejudice.

From time to time, the Company may become defendants in legal actions and the Company intends to take appropriate action with respect to any such legal actions, including defending itself against such legal claims as necessary. As the Company's growth continues, it may become party to an increasing number of litigation matters and claims. The outcomes of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect the Company's financial position, results of operations or cash flows.

26. Capital Management

The Company's objectives when managing its capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern, 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. With the exception of certain restrictive covenants included in the Facility, 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.

(Expressed in United States Dollars, except share amounts)

26. Capital Management (continued)

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

(1) minimizing discretionary disbursements;

(ii) reducing operating expenditures throughout the Company; and

(iii) exploring alternative 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 three months ended March 31, 2021 and 2020.

27. Financial Risk Management

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

(a) 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 market is hindered, whether as the result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its operating and financing activities.

As at March 31, 2021, the Company had a cash balance of $30,923,801 (December 31, 2020 - $10,458,545) to settle current liabilities of $65,439,071 (December 31, 2020 - $63,466,254). The higher current liabilities as at March 31, 2021 and December 31, 2020 is primarily due to the Company's provision for an uncertain tax position (Note 17).

In addition to the commitments outlined in Note 11, *Right-of-use Assets and Lease Liabilities*, and Note 25, *Commitments and Contingencies*, the Company has the following contractual obligations as at March 31, 2021:

	Less than 1 Year	**1 to 3 Years**	**4 to 5 Years**	**> 5 Years**	**Total**
Accounts payable and accrued liabilities	$ 17,751,102	$ -	$ -	$ -	$ 17,751,102
Convertible notes payable	484,926	-	-	-	484,926
Revolving credit facility	-	316,400	-	-	316,400
Income tax payable	8,635,498	-	-	-	8,635,498
Note payable and accrued interest	681,003	1,861,404	1,997,592	14,971,539	19,511,538
	$ 27,552,529	$ 2,177,804	$ 1,997,592	$ 14,971,539	$ 46,699,464

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecasted and actual cash flows. Where sufficient 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 obligations, after taking into account the cash flow requirements from operations and the Company's cash position as at March 31, 2021.

27. Financial Risk Management (continued)

(b) Credit Risk

Credit risk is the risk of potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash, accounts receivable, note receivable – related party and investments and advances, which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash and cash equivalents are primarily held with reputable banks, and at secure facilities controlled by the Company. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents and accounts receivable is minimal.

(c) Market Risk

(i) 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 note payable and convertible notes are carried at a fixed interest rate throughout their term. The Company considers interest rate risk to be immaterial.

(ii) 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 U.S., and the majority of its transactions are in USD. The Company's primary exposure to foreign exchange risk is that bank deposits held in Canada and transactions denominated in CAD may expose the Company to the risk of exchange rate fluctuations.

(d) Asset Forfeiture Risk

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

(e) Banking Risk

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

Due to the present state of the laws and regulations governing financial institutions in the U.S., 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 make it extremely difficult for any cannabis company to obtain financing from U.S. federally regulated entities. Additionally, U.S. federal prohibitions on the sale of cannabis may result in cannabis manufacturers and retailers being restricted from accessing the U.S. 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.

28. Segmented Information

The Company's operations comprise a single operating segment engaged in the cultivation, branding, distribution and retail management of cannabis within the U.S. All revenues were generated in the United States for the three months ended March 31, 2021 and 2020 and all property, plant and equipment and intangible assets are located in the United States.

29. Subsequent events

The Company has evaluated subsequent events through May 31, 2021.

SLWS

On March 30, 2021, in connection with an ongoing dispute related to the property lease for SLWS (Note 25), the court ruled against SLWS and entered a judgment that included:

(i) the plaintiff immediately being entitled to restitution and possession of the premises;

(ii) the lease for SLWS premises being declared forfeited; and

(iii) the plaintiff being awarded unpaid rent and damages.

On April 1, 2021, the Company filed a request for temporary stay of eviction. The request was granted and the parties mutually agreed to stay the eviction until May 15, 2021. On April 26, 2021, the Company entered into a settlement agreement with the landlord which included extending the lease for an additional six-month period ending October 31, 2021 and authorizing adult-use retail cannabis sales on the premises for the duration of the lease.

On May 11, 2021, the Company received approval from the California Bureau of Cannabis Control to commence adult-use retail sales at SLWS.

PMACC v. Commissioner

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 (see Note 17). In December 2019, PMACC appealed the Tax Court decision to the United States Court of Appeals for the Ninth Circuit, which heard oral arguments in the case on February 9, 2021 and affirmed the Tax Court decision on April 22, 2021.

SJW 280E cases

On May 14, 2021, the Company appealed the United States Tax Court decisions with respect to Docket Nos. 12313-15, 12353-15, and 15714-18 (the "Cases") to disallow all of the SJW's deductions pursuant to IRC Section 280E for all years at issue.

Related Party Note Receivable

On May 25, 2021, the outstanding balance plus all accrued interest on the promissory note and pledge agreement with Mr. Nichols was repaid in full.

Revolving Credit Facility

On May 28, 2021, the Company drew down $11,453,600 on the revolving credit facility.