THE HARBORSIDE GROUP

HARBORSIDE INC.

Management's Discussion and Analysis
of Financial Condition and Results of Operations

For the Year Ended December 31, 2020

April 24, 2021

This Management's Discussion and Analysis ("MD&A") constitutes management's assessment of the financial condition and results of operations of Harborside Inc. ("Harborside" or the "Company") for the year ended December 31, 2020 ("Fiscal 2020"). It is supplemental to, and should be read in conjunction with the audited consolidated financial statements of Harborside for the years ended December 31, 2020 and 2019 (the "2020 Financial Statements"). The 2020 Financial Statements and the financial information contained in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. In preparing this MD&A, management has taken into account information available up to April 24, 2021. Unless otherwise indicated, all figures presented in this MD&A are expressed in United States Dollars ("$" or "USD"). All references to "C$" or "CAD" pertain to Canadian Dollars. Unless the context otherwise requires, references in this MD&A to the "Company", "Harborside", "we", "us" or "our" refers to Harborside Inc. and its subsidiaries.

This MD&A has been prepared with reference to the requirements of National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators ("CSA") and Staff Notice 51-352 (Revised) – Issuers with US Marijuana Related Activities (the "Staff Notice").

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian securities laws and United States securities laws ("forward-looking statements"). All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements are often identified by words such as "may", "would", "could", "should", "will", "intend", "plan", "seek", anticipate", "believe", "estimate", "expect" or similar words and expressions. Examples of forward-looking statements include, among others, statements relating to information set out in this MD&A under the headings "Outlook and Growth Strategy", "Projected Revenue Guidance", and "Outlook and Impact of COVID-19", "Working Capital and Liquidity Outlook", and statements and information regarding: the effects of the novel coronavirus ("COVID-19") on the Company's operations and financial condition; future financial position and results of operations, strategies, plans, objectives, goals and targets; future developments in the markets where the Company participates or is seeking to participate; the potential divestiture of the Terpene Station Dispensary (as defined herein) in Eugene, Oregon; potential future legalization of adult-use and/or medical cannabis under United States federal law; expectations of market size and growth in the United States ("U.S.") and the states in which the Company operates; and, expectations for other economic, business, regulatory and/or competitive factors related to the Company or the cannabis industry generally and other events or conditions that may occur in the future. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on management's current beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions of the Company. Although the Company believes that the expectations, estimates, and projections reflected in such forward-looking statements are reasonable, such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance, or achievements to differ materially from those suggested by the forward-looking statements. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. On this basis, readers are cautioned not to place undue reliance on such forward-looking statements.

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

The discussion of risk factors in this MD&A has been updated to include discussion of risks related to the current pandemic caused by the spread of COVID-19. The nature and scope of the pandemic and its impact are rapidly developing and it is difficult for management to identify at the current time all risks, or quantify those identified, or to assess their impact on particular financial measures and operating results. Nevertheless, the discussion under "Risk Factors" identifies potential areas of negative potential impact that may be caused by the pandemic.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this MD&A are made as of the date hereof and are presented for the purpose of assisting investors and others in understanding Harborside's financial position and results of operations, as well as its objectives and strategic priorities, and may not be appropriate for other purposes. The Company undertakes no obligation to publicly update or revise any forward-looking statements or any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about the Company's prospective results of operations, production and production efficiency, commercialization, revenue and cash on hand, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraph. FOFI contained in this MD&A was approved by management as of the date of this MD&A and was provided for the purpose of providing further information about the Company's future business operations. The Company disclaims any intention or obligation to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Use of Non-IFRS Financial Measures

This MD&A contains references to "Adjusted EBITDA", "Adjusted Gross Profit" and "Adjusted Gross Margin", which are non-IFRS financial measures and do not have standardized definitions under IFRS.

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

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

There are no comparable IFRS financial measures presented in the 2020 Financial Statements. Reconciliations of the supplemental non-IFRS financial measures are presented in this MD&A. The Company provides the non-IFRS financial measures as supplemental information and in addition to the financial measures that are calculated and presented in accordance with IFRS. These supplemental non-IFRS financial measures are presented because management believes such measures provide information which is useful to shareholders and investors in understanding its performance and which may assist in the evaluation of the Company's business relative to that of its peers. However, such measures should not be considered superior to, as a substitute for or as an alternative to, and should only be considered in conjunction with, the most comparable IFRS financial measures.

Overview of the Company

Harborside, through its affiliated entities, 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, Harborside operates a dispensary in Desert Hot Springs, California ("Harborside Desert Hot Springs") under a management services agreement (the "MSA"), which it does not control. 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 Best Market (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. The Company's head office is located at 2100 Embarcadero, Suite 202, Oakland, California, 94606.

Retail Dispensaries

Harborside's retail dispensaries serve both adult-use and medical cannabis customers. The Company's dispensary footprint includes Harborside-branded dispensaries located in Oakland, San Jose, San Leandro and Desert Hot Springs, California. In addition, Harborside operates the Terpene Station Dispensary in Eugene, Oregon under the Terpene Station brand. Harborside Desert Hot Springs is operated under a MSA with Accucanna, LLC ("Accucanna") and includes the only drive-thru cannabis dispensary in southern California. Harborside's dispensary located in Oakland, California received one of the first six commercial cannabis licenses issued in the U.S. and is one of the largest retail cannabis locations in the world. 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 retail cannabis dispensary and related businesses in the Haight Ashbury area of San Francisco, California.

Cultivation and Wholesale

Harborside operates the Production Campus located in Salinas, California, which is approximately 47 acres in size with five active greenhouses containing approximately 200,000 total square feet ("sq. ft.") of licensed cannabis cultivation including 155,000 sq. ft. of flower canopy space and 45,000 sq. ft. of nursery space. The Production Campus features one greenhouse with Dutch Venlo technologies (the "Venlo Greenhouse") and also includes approximately 20,000 sq. ft. of building space devoted to processing, product distribution, warehousing, storage and offices.

Background on Harborside's Corporate Organization

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

On February 8, 2019, the Company and FLRish entered into a merger agreement (as amended on April 17, 2019, the "Merger Agreement") pursuant to which they agreed to complete a reverse takeover transaction (the "RTO Transaction").

On May 30, 2019, the Company completed the RTO Transaction with FLRish by way of a "three-cornered" merger, whereby FLRish became a wholly owned subsidiary of the Company. Concurrent with closing of the RTO Transaction, the Company filed articles of amendment to: (i) consolidate its common shares on the basis of approximately 41.818182 common shares into one new common share (the "Consolidation"); (ii) reclassify its common shares on a post-Consolidation basis as SVS; (iii) create a new class of multiple voting shares ("MVS"); and (iv) change its name to "Harborside Inc.". The RTO Transaction resulted in the former shareholders of FLRish holding a majority of the outstanding share capital and assuming control of the Company. The SVS began trading on the CSE on June 10, 2019.

In connection with the RTO Transaction, the Company and FLRish agreed to exercise the Merger Options to purchase 100% of each of PMACC and SJW. As a result, after the RTO Transaction, the Company exercised the Merger Options and obtained legal control over PMACC and SJW.

The Company is licensed to cultivate, manufacture, distribute and sell wholesale and retail cannabis and cannabis products. The Company operates in and/or has ownership interests in California and Oregon, pursuant to state and local laws and regulations, through its subsidiaries and affiliated entities.

The 2020 Financial Statements have been prepared on a consolidated basis and incorporate the accounts of the Company and its subsidiaries, as follows:

Name	Jurisdiction	Purpose	Percentage Owned (%) 2020	Percentage Owned (%) 2019
Harborside Inc.	Ontario, Canada	Parent	100	100
Lakeside Minerals Corp.	Ontario, Canada	Holding Company	-	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	-
FGW Haight Inc.	California, U.S.	Operating Company	21	-

Recent Developments

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

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

On August 10, 2020, the Company filed the Outstanding Annual Filings and, on August 25, 2020, the Company filed the Q1 2020 Filings. Upon filing the Outstanding Annual Filings and the Q1 2020 Filings, the Company applied to the OSC to have the CTO revoked, and trading of the Company's SVS resumed on the CSE on September 2, 2020.

On September 1, 2020, the Company granted options to purchase up to an aggregate of 2,335,000 SVS to certain directors, officers and employees of Harborside. Each option is exercisable into one SVS at an exercise price of C$0.95 per SVS. The options will expire in accordance with their terms and are subject to certain vesting conditions.

On September 10, 2020, the Company announced that the SVS was expected to begin trading on the OTCQX under the ticker symbol of "HSDEF". Effective October 7, 2020, the Company changed its trading symbol to "HBORF". Listing on the OTCQX was intended to enhance the visibility of Harborside's SVS in the U.S. and provide improved access for U.S. investors to trade the SVS.

On September 29, 2020, the Company incorporated Haight Acquisition Corporation, a new wholly owned subsidiary as a special purpose entity for the acquisition of FGW.

On September 30, 2020, the Company granted options to purchase up to an aggregate of 300,000 SVS to certain consultants of Harborside. Each option is exercisable into one SVS at an exercise price of C$1.09 per SVS. The options vested immediately upon grant and will expire one year from the date of grant.

On October 26, 2020, the Company announced that, in response to feedback from a group of shareholders, including Harborside's largest shareholder, with respect to the Company's annual and special meeting of shareholders scheduled for November 24, 2020 (the "Meeting"), the Company was proposing an alternate slate of nominees for election as directors of Harborside at the Meeting. On November 24, 2020, Kevin Albert, Michael Dacks, Matt Hawkins, Peter Kampian, Alexander Norman, James Scott and Andrew Sturner were elected as directors of Harborside.

On October 29, 2020, the Company entered into a share purchase agreement with Cachee Gold Mines Corp. ("Cachee") for the sale by the Company of all of the issued and outstanding common shares in the capital of Lakeside Minerals Corp. ("Lakeside"), one of the Company's legacy subsidiaries. The Company received C$5,000 cash consideration and one special share warrant of Cachee convertible at the option of the Company, for no additional consideration immediately prior to the listing of common shares of Cachee (the "Cachee Shares") on a recognized Canadian stock exchange, into such number of Cachee Shares equal to C$100,000.

On November 3, 2020, the Company announced that it had received approval for Depository Trade Clearance settlement services. The electronic method of clearing securities speeds up the receipt of stock and cash and will accelerate settlement processes for investors.

On November 6, 2020, the Company announced that it was engaging in a substantial upgrade of one of its approximately 45,000 sq. ft. greenhouses at its 47-acre integrated Production Campus (see "Outlook and Growth Strategy" for details).

On November 17, 2020, the Company and its subsidiaries entered into a guaranty and security agreement to guarantee and secure the obligations of the Company to defend and to indemnify its directors and officers (collectively, the "Secured Indemnity"). The Secured Indemnity is intended to supplement coverage available under existing directors and officers insurance maintained by the Company to mitigate concerns about: (i) claims and potential claims against directors and officers of Harborside and, (ii) whether the available insurance applies to and will satisfy in full such claims and potential claims. The scale and complexity of the Company's operations in a highly regulated sector requires that the directors and officers managing those operations be committed to the performance of their duties without undue or inappropriate distractions. In management's view, concerns about claims and potential claims and adequacy of insurance may detract from the performance of the directors and officers involved in the Company's operations or lead to their resignation, which would disrupt the Company's business.

On December 18, 2020, the Company entered into a securities purchase agreement (the "FGW Agreement") to acquire a 50.1% interest in FGW, with an initial ownership interest of 21% (see "Acquisitions" for more details).

On December 23, 2020, the Company granted options to purchase up to an aggregate of 840,000 SVS to certain directors of Harborside. Each option is exercisable into one SVS at an exercise price of C$1.83 per SVS. The options will expire five years from the date of grant and are subject to vesting conditions.

On December 31, 2020, the Company eliminated the role of Chairman Emeritus and Steve DeAngelo, a former CEO and director of FLRish, separated from Harborside.

On January 15, 2021, Greg Sutton resigned as Chief Operating Officer of Cultivation and Manufacturing of Harborside.

On February 18, 2021, the Company closed its upsized brokered private placement of units ("Units") of Harborside at a price of C$2.55 per SVS Unit (as defined herein) and C$255.00 per MVS Unit (as defined herein) for aggregate gross proceeds of approximately C$35.1 million (the "Offering") (see "Subsequent Events" for more details).

On February 26, 2021, the Company was named "Best Curbside Pick-up" for dispensaries by readers in East Bay Express' Best of the East Bay 2021. In addition, Harborside also placed as a top 3 finalist for the Best Cannabis Delivery category in the Desert Sun's "Best of the Desert" 2020 competition.

On February 26, 2021, the Company redeemed all of its issued and outstanding Series B special shares ("Series B Special Shares") and all of its issued and outstanding Series C special shares ("Series C Special Shares" and, together with the Series B Special Shares, the "Special Shares") (see "Subsequent Events" for details).

On March 8, 2021, the Company, through one of its subsidiaries, purchased $5 million of 15% Senior Secured Convertible Debentures (the "Debentures") of LPF JV, LLC ("Loudpack") (see "Subsequent Events" for details).

On March 19, 2021, the Company entered into a $12 million senior secured revolving credit facility (the "Credit Facility") with a commercial federally regulated bank (see "Subsequent Events" for details).

On April 22, 2021, the United States Court of Appeals for the Ninth Circuit affirmed the Tax Court decision in the case of PMACC v. Commissioner (see "Subsequent Events" for details).

Outlook and Growth Strategy[1]

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

Regarding its retail dispensaries, the Company currently:

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

In addition, on December 18, 2020, the Company acquired a 21% ownership interest in FGW, a company that has the conditional use approval necessary to operate a retail cannabis dispensary and related businesses in the Haight Ashbury area of San Francisco, California.

The Company also operates the Production Campus in Salinas, which is approximately 47 acres in overall size and contains five active greenhouses with a combined cultivation area of approximately 200,000 sq. ft., including 155,000 sq. ft. of flower canopy space and 45,000 sq. ft. of nursery space. The Production Campus features the Venlo Greenhouse, which provides approximately one acre of growing space in a facility that is equipped with solid glass paneling, radiant heated floors, computerized environmental and fertigation systems along with a customizable automated LED lighting system.

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

All cannabis flower grown at the Production Campus are cultivated using sustainable practices and the facility adheres to California's rigorous horticulture and harvesting standards.

In addition to the greenhouses, there are separate buildings on site containing approximately 20,000 sq. ft. of space devoted to drying, processing, packaging, inventory storage, equipment storage and management offices. The Production Campus enables Harborside to produce a wide array of cannabis products which are offered to consumers at varying price points to meet the diverse and changing buying habits of retail customers. Harborside also sells a variety of bulk and consumer packaged wholesale cannabis products to other dispensaries, manufacturers, and distributors.

In November 2020, the Company announced plans to substantially upgrade one of the greenhouses at the Production Campus. The planned upgrades include, among other things, the installation of new floors, blackout curtains and supplemental LED grow lights. Following completion of these upgrades, the Company expects an approximately 50% increase in production on an annualized basis from this greenhouse, which would create an expected approximately 10% increase in bulk wholesale revenue capacity and an approximately 7% increase in the total production capacity of the Production Campus. The project is expected to be completed within the second quarter of 2021.

In addition, the Company also announced that its in-house brand, Harborside Farms will commence retail sales of clones grown at the Production Campus at all Harborside-branded retail locations, including Harborside Desert Hot Springs.

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

Strategies

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

- expand its retail footprint throughout California;
- continue to increase the sell-through of in-house brands at Company-controlled retail stores;
- improve its cannabis production efficiencies and yields/manufacturing capabilities;
- expand the wholesale distribution of its branded consumer packaged goods throughout California;
- shift more of its wholesale sales from bulk cannabis products to branded packaged goods;
- increase the number of branded cannabis product offerings, including non-flower cannabis products; and
- create or acquire new California centric consumer brands.

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

Through a review of Harborside's existing retail portfolio, management has decided to explore the potential divestiture of the Terpene Station Dispensary in Eugene, Oregon (the "Oregon Assets") as part of the Company's continued efforts to focus on the California market. The Company has not entered into any agreements, binding or non-binding, to divest the Oregon Assets as of the date of this MD&A. Further, the Company has not established a definitive timeline to complete such divestiture, and no decisions related to the divestiture have been reached at this time. There can be no assurance as to what, if any, transactions might be pursued by the Company as a result of its intention to potentially divest the Oregon Assets. The Company does not intend to comment further with respect to the divestiture unless and until it determines that additional disclosure is appropriate in accordance with the requirements of applicable securities laws. The Company also intends to relocate its dispensary in San Leandro in order to obtain a long-term lease allowing adult use retail operations as permitted by the City of San Leandro. The Company is working to secure a lease extension at its current location and has entered into a non-binding letter of intent for a new location. The Company has not established a definitive timeline to complete the buildout and licensure of the new location but anticipates that a relocation will occur no later than December 31, 2021. There can be no assurance that an extension of the current lease will be obtained, or a that new lease will be secured. The Company does not intend to comment further with respect to the relocation unless and until it determines that additional disclosure is appropriate in accordance with the requirements of applicable securities laws.

Assumptions and expectations

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

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

In management's view, due to a patchwork of differing laws and the inability to ship products across state lines, it has historically proven to be difficult to scale a cannabis business across multiple states. Given the growth trajectory of the California cannabis market in comparison to other U.S. state markets, and the difficulty of operating in multiple states, Harborside intends to focus on a California-centric business model to consolidate and increase its market share across California, while at the same time further leveraging its existing strength in the Bay Area, where the Company's dispensaries have already earned considerable market share.

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

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

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

Strategic acquisitions

Harborside is actively pursuing growth opportunities to expand its presence in the California cannabis market. The Company intends to make announcements on potential acquisitions once definitive agreements are reached with interested parties.

Projected Revenue Guidance[2]

The Company released certain forward-looking financial projections for 2021 in a news release dated January 19, 2021, which is available under the Company's profile on SEDAR at www.sedar.com. In that news release, the Company announced that for 2021, it expects standalone gross revenues of between $68.0 to $72.0 million. The anticipated increase in revenues for 2021 are expected to be derived from improved retail pricing along with continued increases in both flower yields and processing efficiencies from the Company's wholesale operations. In addition, the Company expects an Adjusted EBITDA in the range of 15% to 17% of revenues for 2021. Management expects to attain this higher level of Adjusted EBITDA in 2021 through more efficient procurement of goods sold and stronger cost discipline on overhead spend.

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

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

- Targets are based on historical results including the current year's consolidated results of operations;
- Targets are subject to improved flower yields and additional cultivation cost improvement plans realized in Fiscal 2020, and those anticipated to be realized during 2021;
- Both retail and wholesale revenue sustainability and growth depend on a variety of factors, including among other things, location, competition, legal and regulatory requirements. Pricing is projected forward using a combination of ongoing and anticipated market trends, as well as recently realized wholesale and retail prices; and
- Cost of goods sold, before taking into account the impact of fair value changes in biological assets (which are non-cash in nature, and, accordingly, are excluded from calculations of Adjusted EBITDA), has been projected based on estimated costs of production and capacity available from a vertically integrated supply chain. Cost of goods sold relating to retail inventory purchased from third-parties has been projected in line with historical levels, which is approximately 50%. Across its retail and wholesale businesses, the Company assumes blended adjusted gross margin to be approximately 38%. However, gross margin can be influenced by a number of factors including, among other things, the cost and yields of cannabis cultivation and production, wholesale cannabis prices, and other relevant factors.

These targets, and the related assumptions, involve known and unknown risks and uncertainties which may cause actual results to differ materially. While the Company believes there is a reasonable basis for these targets, such targets may not be met, especially in light of the continued evolution COVID-19. The COVID-19 pandemic also contributes to the inability of the Company to produce additional targets beyond 2021. See "Outlook and Impact of COVID-19" below for further details. These targets represent forward-looking information. Actual results may vary and differ materially from the targets.

Outlook and Impact of COVID-19[3]

The novel coronavirus commonly referred to as "COVID-19" was identified in December 2019 in Wuhan, China. On January 30, 2020, the World Health Organization (the "WHO") declared the outbreak a global health emergency, and on March 11, 2020, the spread of COVID-19 was declared a global pandemic by the WHO. 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.

The Company has taken responsible measures with respect to the COVID-19 pandemic to maximize the safety of staff working at its facilities. 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 enacted 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 in-store safety and sanitation protocols. 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, with the exception of its dispensary in San Leandro, 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. Since Governors in the states of Oregon and

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

California have deemed cannabis to be an "essential" service, access to cannabis products from Harborside and other cannabis operators throughout both states has been protected. With the exception of its dispensary in San Leandro, which is limited to medical sales only and was closed on Sundays due to fewer customer visits resulting from COVID-19, Harborside's retail store locations and production facilities remain fully operational, and at times, the Company has seen record weekly revenues and average basket sizes across its locations, as well as significant improvement in its profitability as its ongoing business transformation initiatives continue to adapt to the changing environment.

Measures undertaken by the Company in response to COVID-19 include the following:

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

Harborside is committed to playing an important role in providing communities with essential cannabis products during this critical time, and to doing its part to slow the spread of COVID-19, as demonstrated by being named the "Best Curbside Pick-up" for dispensaries by readers in East Bay Express' "Best of the East Bay 2021". Management will continue to implement alternative solutions as necessary throughout this crisis to ensure continued access to our high-quality products.

While the Company ended Fiscal 2020 with a cash and cash equivalents balance of approximately $10.5 million, the Company must prudently manage cash and maintain its liquidity amidst the continued uncertainty during the COVID-19 pandemic. The Company's core focus will be on implementing its business continuity plan and closely monitoring the developments of COVID-19 to focus its resources on navigating and adapting to the situation as it unfolds. Ensuring that customers continue to have safe and uninterrupted access to its products, as well as maintaining high quality growth, cultivation, production, and manufacturing capabilities, will be critical to the Company's success. Cost reductions in salaries, marketing and other administrative functions have been implemented and capital expenditures have been postponed where possible. Management believes that the Company will continue to be able to maintain a positive cash flow and successfully manage its cash balance. Maintaining liquidity through the pandemic and continuing with its business continuity plan should place the Company in a very strong competitive position once the COVID-19 pandemic ends.

Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets

On February 8, 2018, the CSA published the Staff Notice, which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the U.S. as permitted within a particular state's regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. cannabis industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice.

Currently, the Company's involvement in the U.S. cannabis industry is "direct" through its operations from the Harborside dispensaries in Oakland, San Jose and San Leandro, Harborside Desert Hot Springs, the Terpene Station Dispensary in Oregon, and the Production Campus. Disclosures for issuers with "direct" involvement include, but are not limited to, (i) a description of the nature of a reporting issuer's involvement in the U.S. cannabis industry; (ii) an explanation that marijuana is illegal under U.S. federal law and that the U.S. enforcement approach is subject to change; (iii) a discussion of available guidance from federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities; (iv) a discussion of related risks, such as the risk that third party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.; (v) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations; (vi) statement about whether and how the reporting issuer's U.S. marijuana-related activities are conducted in a manner consistent with U.S. federal enforcement priorities, including whether legal advice has been obtained regarding (A) compliance with applicable state regulatory frameworks and (B) potential exposure and implications arising from U.S. federal law; (vii) a quantification of the issuer's balance sheet and operating statement exposure to U.S. marijuana related activities; (viii) a summary of the regulations for the U.S. states in which the issuer operates; (ix) an explanation of how the issuer complies with applicable licensing requirements and regulations in those states; (x) a discussion of the issuer's program for monitoring ongoing compliance with cannabis laws in those states and the issuer's internal compliance procedures; (xi) a positive statement indicating that the issuer is in compliance with applicable licensing requirements and regulations in those states; and (xii) a discussion of any non-compliance, citations or notices of violation which may have an impact on the issuer's license, business activities or operations.

As a result of the Company's operations, the Company is therefore subject to the requirements of the Staff Notice and accordingly provides the following disclosures:

(i) Nature of Harborside's direct involvement in the U.S. cannabis industry

The Company operates in and/or has ownership interests in California and Oregon, pursuant to state and local law and regulations. Harborside-branded retail dispensaries in California are located in Oakland, San Jose, and San Leandro. In addition, the Company operates a dispensary in Desert Hot Springs under an MSA. Harborside also owns and operates the Terpene Station Dispensary under the Terpene Station brand, in Eugene, Oregon. Harborside's retail dispensaries serve both adult-use and medical cannabis customers. The Company also holds a 21% ownership interest in FGW, a company that has the conditional use approval necessary to operate a retail cannabis dispensary and related businesses in the Haight Ashbury area of San Francisco. Under the terms of the FGW Agreement, Harborside's ownership interest in FGW is expected to increase to 50.1%. Taken together, Harborside's retail dispensaries have over 15 years of operating history, with more than $388.0 million of historical sales (including gross revenue of more than $63.4 million in Fiscal 2020), and in excess of 280,000 patients and customers served.

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

Harborside owns and operates the Production Campus in Salinas, California, which enables the Company to produce a wide array of cannabis products that can be offered at varying price points, meeting the ever diverse and changing habits of customers and other dispensaries, manufacturers, and distributors.

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

(ii) Cannabis is still illegal under U.S. federal law

While cannabis containing greater than 0.3% THC by volume ("marijuana") and cannabis-infused products are legal under the laws of several U.S. states (with vastly differing restrictions), presently the concept of "medical", "retail" or "adult-use" cannabis does not exist under U.S. federal law, which deems all cannabis (other than industrial hemp) federally unlawful. The U.S. Federal Controlled Substances Act ("FCSA") classifies marijuana as a Schedule I drug, making enforcement of federal marijuana prohibition a significant risk. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use and a lack of safety for the use of the drug under medical supervision. As such, cannabis-related practices, or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under U.S. federal law.

The U.S. Supreme Court has ruled in a number of cases that the federal government does not violate the federal constitution by regulating and criminalizing cannabis, even for medical purposes. Therefore, federal laws criminalizing the commercialization and use of cannabis pre-empt state laws that legalize its use for medicinal purposes by patients and discretionary purposes by adults, and regulate the commercial production, distribution and sale of cannabis. Notwithstanding such federal preemption, 36 states, the District of Columbia, Puerto Rico, U.S. Virgin Islands, and Guam allow their residents to use medical marijuana as of the date of this MD&A. Additionally, 16 states – Alaska, Arizona, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Montana, Nevada, New Jersey, New York, Oregon, South Dakota, Vermont and Washington – and the territories of Guam, Northern Mariana Islands, and the District of Columbia have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The constitutional validity of South Dakota's voter initiative is currently being challenged in state courts, and is pending appeal. Additionally, both Virginia and New Mexico legislatures have enacted adult-use legalization legislation, which in each case is awaiting their respective governor's signature, as of the time of this writing.

(iii) Available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in the jurisdictions where Harborside operates

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

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

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

In particular, the Cole Memo noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the DOJ did not provide specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memo standard.

On November 14, 2017, Jeff Sessions, then the U.S. Attorney General, made a comment before the House Judiciary Committee about prosecutorial forbearance regarding state-licensed cannabis businesses. In his statement, Mr. Sessions stated that in accordance to the U.S. federal government's current policy, while states may legalize cannabis for its law enforcement purposes, it remains illegal with regard to federal purposes.

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

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

As a result of the Sessions Memo, federal prosecutors may use their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws permitting such activity. No direction was given to federal prosecutors in the Sessions Memo as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memo did not discuss the treatment of medical cannabis by federal prosecutors. Under the Rohrabacher-Farr Amendment, federal prosecutors are prohibited from expending federal funds against medical cannabis activities that are in compliance with state law. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed. In Washington, Annette Hayes, U.S. Attorney for the Western District of Washington, released a statement affirming that her office will continue to investigate and prosecute "cases involving organized crime, violent and gun threats, and financial crimes related to marijuana" and that "enforcement efforts with our federal, state, local and tribal partners focus on those who pose the greatest safety risk to the people and communities we serve." However, in California, at least one U.S. Attorney has made comments indicating a desire to enforce the FCSA: Adam Braverman, Interim U.S. Attorney for the Southern District of California, has been viewed as a potential "enforcement hawk" after stating that the rescission of the 2013 Cole Memo "returns trust and local control to federal prosecutors" to enforce the FCSA. Additionally, Greg Scott, the Interim U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity: his office published a statement that cannabis remains illegal under federal law, and that his office would "evaluate violations of those laws in accordance with our district's federal law enforcement priorities and resources". U.S. Attorney General Jeff Sessions resigned on November 7, 2018.

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

The Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, S. 3032 (2018), which would have protected individuals working in cannabis sectors from federal prosecution, was introduced in June 2018 through bipartisan efforts initiated by then Senator Cory Gardner together with Massachusetts U.S. Senator Elizabeth Warren. Senator Warren won re-election during the 2018 mid-term elections, which suggests she will support the change to federal law regarding cannabis. In addition, constituents of the State of Michigan voted to legalize recreational cannabis, making Michigan the first state in the Midwest U.S. to do so and the 10th in the U.S. overall, demonstrating growing sentiment among Americans towards legalization. Voters in the states of Missouri and Utah also approved ballot measures legalizing cannabis for medical use, making their states the 31st and 32nd to do so.

On December 20, 2018, the 2018 Farm Bill was signed by President Trump, and it permanently removed hemp and hemp derivatives (including CBD and other cannabinoids) from the purview of the FCSA.

William Barr was appointed as the U.S. Attorney General on February 14, 2019. In an April 10, 2019 Senate Appropriations Subcommittee meeting to discuss the Justice Department's budget 2020, in response to a question about his position on the proposed STATES Act, Attorney General Barr stated: "Personally, I would still favor one uniform federal rule against marijuana," "But if there is not sufficient consensus to obtain that then I think the way to go is to permit a more federal approach so states can, you know, make their own decisions within the framework of the federal law. So we're not just ignoring the enforcement of federal law." The STATES Act, if it were to pass, would allow states to determine their own approaches to marijuana. Attorney General Barr said the legislation is still being reviewed by his office but that he would "much rather... the approach taken by the STATES Act than where we currently are." It is unclear what impact this development will have on U.S. federal government enforcement policy. The inconsistency between federal and state laws and regulations is a major risk factor. The newly nominated Attorney General, Merrick Garland, has views that are unclear on this topic. Refer to the discussion under the heading "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets".

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

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

On November 3, 2020, the U.S. held its 2020 presidential election, and adult-use cannabis legalization was approved via ballot measures in four additional states: Arizona, Montana, South Dakota and New Jersey. Additionally, medical cannabis was legalized via ballot measures in Mississippi and South Dakota, which became the first state to legalize medical and recreational cannabis simultaneously. In total, 15 states and Washington, DC have legalized cannabis for adult-use over the age of 21, while 36 states have legalized cannabis for medical use.

On November 4, 2020, the House passed the MORE Act, the first time that either Congressional house voted to deschedule cannabis from the FCSA and thus decriminalize manufacturing, distribution, and possession. However, the Senate did not act before the end of the 2020 session.

On January 20, 2021, Joseph R. Biden was sworn in as the 46th President of the U.S, having announced a goal during his campaign to decriminalize cannabis possession federally; Democrats maintained their House majority and achieved control of the Senate. On March 10, 2021, House Democrats voted 220 to 211 in favor of passing the American Rescue Plan (ARP) Act, a $1.9 trillion coronavirus relief package, which is among the largest economic stimulus packages in U.S. history. The ARP Act was signed by President Biden on March 11, 2021. While cannabis companies will likely see increased sales resulting from this third round of federal stimulus payments in the U.S., some industry experts have claimed that cannabis companies may be ineligible for certain small business credit initiatives outlined in the relief package.

In March 2021, New York became the 16th state to legalize adult-use cannabis, both doing so through legislative action. In the same month, Senate Majority Leader Chuck Schumer of New York, and Senators Ron Wyden (OR) and Cory Booker (NJ) met with cannabis industry advocates including the National Cannabis Industry Association and the Minority Cannabis Business Association to announce their intention to introduce legislation in the U.S. Senate that would legalize, tax and regulate commercial cannabis activity at the federal level. While President Biden has supported decriminalization of possession and has not expressed support for descheduling cannabis, Vice President Harris was one of the original sponsors of the MORE Act while she was still serving in the U.S. Senate, and has publicly stated her support for cannabis descheduling. Senate Majority Leader Schumer has indicated the Senate leadership's willingness to champion full cannabis legalization even without the support of President Biden. However, the legislation has not yet been introduced, and its passage is not assured, notwithstanding Democratic control of the federal executive and legislature. As such, such statements of support for descheduling do not materially affect the likelihood of federal enforcement of current cannabis laws against the Company or any other state-licensed cannabis enterprise.

While newly appointed U.S. Attorney General Merrick Garland had previously commented that he would deprioritize enforcement of low-level cannabis crimes such as possession, and that federal reforms are closely tied to the larger issue of social justice for minorities, Attorney General Garland has yet to offer further clarity on how he will enforce federal law or how to deal with states that have legalized medical or recreational cannabis. While bipartisan support is gaining traction on decriminalization and reform, there is no imminent timeline on any potential legislation. There is no guarantee that the Biden Presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with state laws.

Any increase in the U.S. federal government's enforcement of current U.S. federal law could cause adverse financial impact and remain a significant risk to the Company's business, which could in turn have an impact on the Company's operations or financial results. A change in its enforcement policies could impact the ability of the Company to continue as a going concern (see "Risk Factors").

U.S. Federal Budget Rider Protection

The U.S. Congress has passed appropriations bills (at various times, the "Rohrabacher-Farr Amendment," the "Leahy Amendment" and the "Joyce Amendment," hereinafter the "Budget Rider Protections") each of the last several years to prevent the federal executive branch (and specifically the DOJ) from using congressionally appropriated funds to enforce the FCSA against regulated medical cannabis businesses operating in compliance with state and local laws, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical cannabis. The Budget Rider Protections were first introduced in 2014 and has been reaffirmed annually since then as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. The current Budget Rider Protections will remain in effect until September 30, 2021. At such time, it may or may not be included in the omnibus appropriations package or a continuing budget resolution, and its inclusion or non-inclusion, as applicable, is subject to political changes. It should be noted that this amendment does not apply to adult-use cannabis.

U.S. courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable state law. However, because this conduct continues to violate U.S. federal law, U.S. courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with applicable state law – could be prosecuted for violations of U.S. federal law. Therefore, until Congress amends the FCSA regarding cannabis, enforcement of U.S. federal law remains a significant risk. Any increase in the U.S. federal government's enforcement of current U.S. federal law could cause adverse financial impact and remain a significant risk to the Company's business, which could in turn have an impact on the Company's operations or financial results. A change in its enforcement policies could impact the ability of the Company to continue as a going concern (see "Risk Factors").

Other statements made by U.S. federal authorities or prosecutors

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

To the knowledge of the Company's management, there have not been any additional statements or guidance made by U.S. federal authorities or prosecutors regarding the risk of enforcement action in California or Oregon, the state jurisdictions within which Harborside operates.

(iv) Related risks, including disruption of third party provided services and the imposition of certain restrictions by regulatory bodies on Harborside's ability to operate in the U.S.

Asset forfeiture risk

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

Unfavorable tax treatment of cannabis businesses

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

Limited trademark protections

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

Reliance on third-party service providers

Third party service providers to the Company may withdraw or suspend their service to the Company under threat of criminal prosecution. Since under U.S. federal law the possession, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, companies that provide goods and/or services to companies engaged in cannabis-related activities may, under threat of federal civil and/or criminal prosecution, suspend or withdraw their services.

Customs and Border Protection

Foreign investors in the Company and the Company's non-U.S. citizen directors, officers and employees may be subject to travel and entry bans into the U.S by U.S. Customs and Border Protection ("CBP"). Media articles in 2018 reported that certain Canadian citizens had been rejected for entry into the U.S. due to their involvement in the cannabis sector.

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

Admissibility to the U.S. may be denied to any person working or "having involvement in" the cannabis industry, according to CBP. Inadmissibility in the U.S. implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver. Note that while the CBP previously publicized the foregoing policy on its website during the Trump Administration, the agency appears to have archived the webpage.

(v) Ability to access public and private capital, and available financing options to support continuing operations

U.S. federal anti-money laundering laws prohibit the deposit of returns from "specified unlawful activities" (including cannabis sales) into federally and state-chartered banks. The Company is subject to a variety of laws and regulations domestically and in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended and the rules and regulations thereunder, the *Criminal Code* (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada.

The Secure and Fair Enforcement (SAFE) Banking Act was passed by the U.S. House of Representatives on September 25, 2019 and reintroduced in the House and Senate in March 2021. This bill generally prohibits a federal banking regulator from penalizing a depository institution under federal money-laundering laws for providing banking services to a legitimate cannabis-related business. Specifically, the bill prohibits a federal banking regulator from (i) terminating or limiting the deposit insurance or share insurance of a depository institution solely because the institution provides financial services to a legitimate cannabis-related business; (ii) prohibiting or otherwise discouraging a depository institution from offering financial services to such a business; (iii) recommending, incentivizing, or encouraging a depository institution not to offer financial services to an account holder solely because the account holder is affiliated with such a business; (iv) taking any adverse or corrective supervisory action on a loan made to a person solely because the person either owns such a business or owns real estate or equipment leased or sold to such a business; or (v) penalizing a depository institution for engaging in a financial service for such a business.

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

Notwithstanding that a majority of states have legalized medical cannabis, and the U.S. House's passage of the SAFE Banking Act, the SAFE Banking Act has not been enacted into law, and there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that the U.S. federal government maintains sole jurisdiction over federally-chartered banks and financial institutions, and that federal law provides that the production and possession of cannabis is illegal under the FCSA, federally-chartered banks cannot accept funds for deposit from businesses involved with the cannabis industry. To date, fewer than 800 banks and credit unions in the U.S. offer financial services to the cannabis industry.

(vi) Harborside's U.S. marijuana-related activities are conducted in a manner consistent with U.S. federal enforcement priorities, with legal advice regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law

As discussed above, and notwithstanding the rescission of the Cole Memo, Harborside continues to conduct its operations in compliance with the DOJ's most recent expression of U.S. federal enforcement priorities as set forth in the Cole Memo, which in turn presumes compliance with applicable state cannabis laws and regulations as an underlying premise for non-enforcement. In addition to employing in-house legal counsel, Harborside utilizes outside legal counsel to advise the Company on compliance with applicable state regulatory frameworks in the states where its retail dispensaries and production facilities conduct operations, as well as potential exposure and implications arising from developments in U.S. federal law. See the discussion further below for additional detail on how Harborside conducts its operations in full compliance with applicable local and state cannabis laws and regulations in Oregon and California.

(vii) Harborside's balance sheet and operating statement exposure to U.S. marijuana related activities

The following represents the portion of certain assets on Harborside's consolidated statements of financial position that pertain to U.S. cannabis activities as at December 31, 2020:

Statement of Financial Position Line Items	**Percentage (%) which related to holdings with U.S. cannabis-related activities**
Cash	69%
Accounts receivable, net	81%
Inventories	100%
Biological assets	100%
Prepaid expenses	85%
Note receivable – related party	100%
Other current assets	100%
Investments and advances	100%
Property, plant and equipment, net	100%
Right-of-use assets	100%
Deposits	100%
Intangible assets	100%
Goodwill	100%

The following represents the operating exposure on Harborside's consolidated statements of loss and comprehensive loss that pertain to U.S. cannabis activities for the year ended December 31, 2020:

Statement of Loss and Comprehensive Loss Line Items	**Percentage (%) which related to holdings with U.S. cannabis-related activities**
Retail revenue, net	100%
Wholesale revenue, net	100%
Cost of goods sold – retail	100%
Cost of goods sold – wholesale	100%
Changes in fair value less costs to sell of biological assets transformation	100%
Realized fair value amounts included in inventory sold	100%
General and administrative expenses	96%
Professional fees	66%
Share-based compensation	97%
Allowance for expected credit losses	-
Write-downs of receivables, investments and advances	100%
Impairment loss	62%
Depreciation and amortization	100%
Interest income (expense), net	96%
Other income (expense)	100%
Provisions	100%
Fair value gain in derivative liabilities and preferred shares	100%
Foreign exchange gain	-

(viii) Summary of applicable state regulations in California and Oregon

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

California

California passed the first medical cannabis law in U.S., the California Compassionate Use Act (CUA), through Proposition 215 in 1996. The CUA created a legal defense to criminal prosecution for the use, possession, and cultivation of cannabis by patients with a valid physician's recommendation.

California then adopted Medical Marijuana Program Act (*aka* Senate Bill 420) in 2003, establishing not-for-profit medical cannabis patient collectives and retail dispensaries, a limited immunity from arrest for medical cannabis patients and collectives, and a voluntary patient ID card system.

In September of 2015, the California state legislature (the "Legislature") passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("MCRSA"). MCRSA established a licensing and regulatory framework for medical cannabis businesses in California (which is still reflected in the successor laws discussed below), and permitting the formation and operation of for-profit cannabis businesses for the first time. The licensing system features multiple license types for storefront and delivery retailers, extraction facilities, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Extraction facilities require either a volatile solvent or non-volatile solvent manufacturing license, depending on their specific extraction methodology. Multiple agencies oversee different aspects of the program and businesses require both a state license and local approval to operate.

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

On June 27, 2017, the Legislature passed state Senate Bill No. 94, also known as the "Medicinal and Adult-Use Cannabis Regulation and Safety Act" ("MAUCRSA"), which amalgamated the MCRSA and AUMA frameworks to provide a single uniform statute governing both medical and adult-use cannabis businesses, and authorizing the adoption of regulations, a licensing regime, and state taxes for cannabis businesses in the state. On November 16, 2017, the state introduced initial "emergency" regulations proposed by the BCC (within the California Department of Consumer Affairs), the Manufactured Cannabis Safety Branch (within the California Department of Public Health ("MCSB")) and CalCannabis (within the California Department of Food and Agriculture ("CalCannabis,") and together with the BCC and MCSB, the "Licensing Agencies"), which were ultimately adopted. The regulations built on MCRSA and AUMA and reinforced compliance with local laws as a prerequisite to compliance with the state regulations. On January 1, 2018, the new state regulations took effect, and the first legal adult-use cannabis businesses opened in California.

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

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

As at the date of this MD&A, California lawmakers are revisiting the State's cannabis licensing program, to give businesses and regulators more time to get licensing applications processed while allowing the industry to keep functioning without major interruption. The State's "provisional" licensing program was created toward the end of 2018 as a stopgap measure to give entrepreneurs more time to transition from "temporary" business licenses to full "annual" permits, but the bill that established the provisional licenses gave the program only a one-year life span. In 2019, lawmakers reauthorized the program, this time with a two-year window. One of the biggest bottlenecks delaying the issuance of annual permits is the California Environmental Quality Act (CEQA); compliance with the CEQA has created a current backlog of thousands of businesses that are still operating without full annual licenses. Senate Bill 59 has recently been introduced, to fix the provisional issue by extending the program for an additional six years until July 1, 2028.

MAUCRSA requires anyone engaged in "commercial cannabis activity" to be licensed (on an annual basis) to perform such activity. "Commercial cannabis activity" includes the cultivation, possession, manufacture, distribution, processing, storing, laboratory testing, packaging, labeling, transportation, delivery, or sale of cannabis and cannabis products. Cultivators, processors and nursery operators are licensed and regulated by CalCannabis. Cannabis products manufacturers are licensed and regulated by the MCSB. Storefront retailers, delivery services, transportation and storage providers, distributors, "microbusinesses" (engaged in cultivation, manufacturing, distribution and/or retail) and testing labs are all licensed and regulated by the BCC.

While each of the Licensing Agencies have their own unique set of regulations for each license type, they all require disclosure of license ownership and financial interests in licensees. Among other types of interests defined as a "financial interest" in a licensee, any person with greater than 5% ownership of a publicly-traded company like Harborside is deemed a financial interest holder; while "owners" include not only persons with equity interests of 20% or more in a licensee, but also individuals with management, direction and control over the operations of the licensee. While license transfers are prohibited, licensed business entities may add and remove individual owners and financial interest holders (provided that at least one original owner remains on the license), making mergers and acquisitions of, and management services agreements with, licensed entities legally permissible.

Holders of cannabis licenses in California are subject to a detailed regulatory scheme encompassing security, staffing, sales, manufacturing standards, testing, inspections, storage, inventory, advertising and marketing, product packaging and labeling, white labeling, records and reporting, transportation and delivery, tracking of commercial cannabis activity and movement of cannabis and cannabis products across the supply chain through METRC, California's "Track-and-Trace" system, maintaining adequate controls against the diversion, theft, and loss of cannabis or cannabis products, and more. As with all jurisdictions, the full regulations, as promulgated by each applicable Licensing Agency, should be consulted for further information about any particular operational area.

Oregon

In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical cannabis law with an inclusive set of qualifying conditions. In 2013, Oregon enacted House Bill 3460 to create a regulatory structure for existing unlicensed medical cannabis storefront dispensaries. On June 30, 2015, Oregon enacted House Bill 3400, which improved on the existing regulatory structure for medical cannabis businesses and created a licensing process for cultivators and processors. The Oregon Health Authority ("OHA") is the state agency that licenses and regulates medical cannabis businesses. The medical cannabis regulatory framework is referred to as the Oregon Medical Marijuana Program.

In November of 2014, Oregon voters passed Measure 91, the "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act," creating a regulatory and licensing system for adult-use retail cannabis stores, and permitting home cultivation of cannabis. The Oregon Liquor and Cannabis Commission (the "OLCC") licenses and regulates adult-use cannabis businesses. On October 15, 2015, the OLCC published draft recreational cannabis rules, which were adopted on June 29, 2016, as OLCC Division 25 of the Oregon Administrative Rules ("OAR Division 25"). These rules have been updated on a regular basis, due to administrative prerogative and legislative changes. Currently licensed cannabis companies in Oregon are not subject to residency requirements. OAR Division 25 will continue to evolve, subject to OLCC's review and approval. Local governments may restrict – through reasonable time, place, and manner restrictions – or, under certain conditions, wholly prohibit the establishment of medical dispensaries or processing sites or any adult-use marijuana business within their jurisdiction.

The market is divided into six classes of licenses: dispensaries, cultivators, wholesalers, processors, laboratories and research. The OLCC regulates the adult-use program, while the Oregon Health Authority regulates the medical program. Extracted oils, edibles, and flower products are permitted. Wholesaling and delivery are also permitted. In Oregon, there are six types of commercial cannabis licenses: producer (cultivation), processor (manufacture), wholesaler, retailer (dispensary), laboratory (testing), and research.

Until recently, Oregon law did not limit the number of adult-use cannabis business licenses. The passage of SB 218 in 2019 immediately prohibited the issuance of producer licenses for new applications that were submitted after June 15, 2018. SB 218 will be repealed on January 2, 2022. Also, in late May 2018, OLCC announced a "moratorium" on the processing of new applications of all license types submitted after June 15, 2018 – purportedly until it fully processes the backlog of applications submitted up to and on June 15, 2018 – although it continues to accept new applications, with the exception of producer applications pursuant to SB 218. License renewals, changes of ownership of licenses, changes of location, and changes in financial interests in licenses remain unaffected by SB 218 or the moratorium.

Like California licensees, holders of cannabis licenses in Oregon are subject to a detailed regulatory scheme encompassing security, staffing, sales, manufacturing standards, testing, inspections, storage, inventory, advertising and marketing, product packaging and labeling, records and reporting, transportation and delivery, tracking of commercial cannabis activity and movement of cannabis and cannabis products across the supply chain, maintaining adequate controls against the diversion, theft, and loss of cannabis or cannabis products, and more. As with all jurisdictions, the full regulations, as promulgated by each applicable licensing agency, should be consulted for further information about any particular operational area.

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

(ix) How Harborside complies with applicable licensing requirements and regulations in California and Oregon

The Company is duly licensed and permitted to cultivate, manufacture, distribute, sell and deliver wholesale and retail cannabis and cannabis products pursuant to state and local laws and regulations. Harborside files all ownership disclosures, reports, notices and other submissions to the applicable licensing agencies required to maintain its current licenses and permits in good standing, and pays any licensing and permitting fees due in connection therewith.

The Company's cannabis goods are all produced in full compliance with all applicable state laws and regulations. The goods are tested for potency and safety by independent laboratories licensed by the BCC, and all other consumer protection and youth access-prevention laws are adhered to, including but not limited to state packaging, labeling, marketing and advertising laws. All applicable local and state cannabis taxes are paid and remitted to the applicable taxing authorities.

In order to satisfy regulations intended to prevent diversion to the illicit market, the Company employs inventory control and reporting systems that document the present location, amount, and a description of all cannabis goods at all Harborside entities. All cannabis goods are tracked from seed to shelf using METRC, and other integrated systems adopted by the Company. Cannabis inventory is regularly manually reconciled against METRC according to the regulations. The Company performs regular [monthly, quarterly and annual] manual inventory reconciliations.

Additionally, the Company has undertaken extensive measures to ensure the security of the Company, its facilities, its inventory, its staff and its customers, and its community. Every licensed facility has strict access control, thorough camera coverage, and burglar alarms. These controls are supported by on-site security in certain instances.

Finally, the Company employs an in-house Quality and Compliance ("QC") team to ensure compliance with all other applicable state and local regulations by individual employees and Harborside entities, and the Company as a whole. The QC team's compliance work is discussed in further detail below.

(x) Harborside's program for monitoring ongoing compliance with California and Oregon cannabis laws and Harborside's internal compliance procedures

The Company's compliance program includes an in-house QC team dedicated to ensuring compliance with applicable local, U.S. state and federal laws on an ongoing basis. The Company presently employs four individuals on its QC team, and several additional employees whose job function includes some aspect of compliance. The QC team is tasked with carrying out various compliance-related tasks, including:

- ongoing review of Company's policies, procedures and controls to ensure alignment with local and state rules and regulations;

- ongoing training on the Company's policies, procedures and controls, local and state rules and regulations, and the basic elements of the QC program for all staff (with supplemental trainings tailored for staff with specialized job functions, on an as needed basis);
- monthly internal audits of Company processes and procedures; and
- facility inspections to ensure compliance with the Company's policies, procedures and controls, and applicable local and state rules and regulations.

The QC team monitors state and federal law through routine review of regulatory websites, communication with regulatory authorities, and subscription to numerous industry resources that are focused on legal and compliance related issues. As rules or regulations are adopted, the QC team updates policies and procedures as appropriate and disseminates written guidance to all Harborside entities.

The Company also employs government relations professionals to help monitor the changing landscape of state and local law, while employing external legal counsel that assist in the monitoring, notification, and interpretation of any changes in the jurisdictions in which it operates. Such counsel regularly provides legal advice to the Company on maintaining compliance with state and local laws and regulation and the Company's legal and compliance exposures under U.S. federal law.

(xi) Confirmation that Harborside is in compliance with applicable licensing requirements and regulations in California and Oregon

As of the date of this MD&A, Harborside is in compliance with applicable licensing requirements and regulations in California and Oregon.

(xii) Non-compliance, citations or notices of violation which may have an impact on Harborside's license, business activities or operations.

As of the date of this MD&A, the Company has not received any notices of violation, denial or non-compliance from any U.S. state authorities imposing any material restriction of Harborside's operations and/or fines.

Selected Financial Information

Selected annual information

Harborside's selected financial information as at and for the three most recently completed financial years ended December 31 are summarized as follows:

	2020	**2019**	**2018**[4]
	$	**$**	**$**
Retail revenue, net	42,015,941	38,553,585	-
Wholesale revenue, net	21,400,832	10,457,702	-
Services and rental revenue – related party	-	441,252	21,332,820
Cost of goods sold – retail	(20,463,538)	(19,757,769)	-
Cost of goods sold – wholesale	(11,447,628)	(11,269,013)	-
Cost of service and rental revenue – related party	-	(285,196)	(7,896,391)
Gross profit	29,594,208	14,815,163	13,436,429
Operating expenses	(33,293,819)	(72,767,454)	(20,651,840)
Other (expense) income	(2,131,947)	12,512,394	(10,222,583)
Net loss and comprehensive loss	(11,946,690)	(49,458,115)	(17,580,736)
Total assets	114,969,324	115,437,596	61,539,622
Total liabilities	96,337,739	90,302,494	76,059,619
Shareholders' equity (deficit)	18,631,585	25,135,102	(14,519,997)

[4] As a result of the RTO Transaction, the financial information presented as at, and for the year ended December 31, 2019 are presented as a continuance of FLRish and all comparative figures for the year ended December 31, 2018 presented above are those of FLRish only.

Selected quarterly financial results

The following tables presenting the Company's quarterly results of operations should be read in conjunction with the 2020 Financial Statements and related notes included thereon. Operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year. Selected financial information for the eight most recently completed quarters as at December 31, 2020 are as follows:

	Q4 2020	Q3 2020	Q2 2020	Q1 2020
	$	$	$	$
Retail revenue, net	10,212,430	10,681,897	10,940,143	10,181,471
Wholesale revenue, net	2,844,895	8,890,723	5,208,439	4,456,775
Gross revenue	13,057,325	19,572,620	16,148,582	14,638,246
Gross profit	6,722,582	8,615,344	7,596,476	6,659,806
Operating expenses	(12,162,080)	(7,829,586)	(7,119,202)	(6,182,951)
Operating (loss) income	(5,439,498)	785,758	477,274	476,855
Net loss and comprehensive loss	(5,397,824)	(2,413,987)	(1,747,743)	(2,387,136)
Net loss per share – basic and diluted	(0.14)	(0.06)	(0.03)	(0.05)

	Q4 2019	Q3 2019	Q2 2019[5]	Q1 2019[6]
	$	$	$	$
Retail revenue, net	9,511,222	10,393,497	10,387,178	8,261,688
Wholesale revenue, net	2,185,701	3,299,720	2,153,200	2,819,081
Services and rental revenue – related party	-	-	-	441,252
Gross revenue	11,696,923	13,693,217	12,540,378	11,522,021
Gross profit	3,055,900	4,888,112	4,251,768	2,619,383
Operating expenses	(46,608,569)	(8,464,955)	(10,818,033)	(6,875,897)
Operating loss	(43,552,669)	(3,576,843)	(6,566,265)	(4,256,514)
Net (loss) income and comprehensive (loss) income	(44,961,961)	(1,943,496)	(6,132,742)	3,580,084
Net (loss) income per share – basic	(1.40)	(0.05)	(0.22)	0.18
Net income per share – diluted	-	-	-	0.15

Financial Information for the Three Months ended December 31, 2020

Results of operations

During the three months ended December 31, 2020 ("Q4 2020"), Harborside generated retail revenue of $10.2 million and wholesale revenue of $2.8 million, for total gross revenue of $13.0 million, as compared to retail revenue of $9.5 million and wholesale revenue of $2.2 million, for total gross revenue of $11.7 million during the three months ended December 31, 2019 ("Q4 2019"). The year-over-year increase in retail revenue was driven primarily by marketing initiatives launched during the quarter, combined with improved in-store merchandising and a focus on selling more items that were produced in-house. The year-over-year increase in wholesale revenues was primarily due to improved harvest yields and production of premium flower varieties combined with higher sales volumes and higher average prices per pound of cannabis from the Production Campus.

During Q4 2020, cost of goods sold for the retail and wholesale operations totalled $4.8 million and $1.5 million (Q4 2019 – $4.6 million and $3.6 million), respectively. Gross profit before biological asset adjustments for Q4 2020 was $6.3 million, or a gross margin of 49.9% (Q4 2019 – $3.1 million; gross margin before biological asset adjustments of 27.8%). During Q4 2020, the Company recorded an increase in fair value less cost to sell ("FVLCS") of biological asset

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

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

transformation of $1.2 million (Q4 2019 – decrease in FVLCS of biological asset transformation of $1.0 million), and a realized fair value loss on amounts included in inventories sold of $0.8 million (Q4 2019 – realized fair value gain of $0.9 million), for an overall gross profit of $6.7 million and gross margin of 53.4% (Q4 2019 – gross profit of $3.1 million and gross margin of 27.0%). Year-over-year gross margin improvements were primarily due to improved product mix and pricing at retail, combined with higher cultivation yields and higher selling prices at wholesale.

The Company does not experience significant seasonality in its revenue and other important financial performance metrics. However, as a participant in the wholesale cannabis market in California, as a general matter, the overall supply of cannabis has historically increased in the months of September through December, due primarily from production of outdoor cannabis cultivation facilities whose major harvests occur during these months and which, as a result, could cause a general decrease in the wholesale price for cannabis products. The historical pattern of supplies increasing in the months of September through December did not occur in 2020 due to wildfires in northern California, which affected the harvests from outdoor growers and constricted overall supply (see "Risk Factors").

During Q4 2020, the Company incurred total operating expenses of $12.2 million (Q4 2019 – $46.6 million). The year-to-year decrease in total operating expenses is primarily related to the following items:

- Decrease in impairment loss of assets of $33.7 million, as the Company recorded impairments of $3.2 million on its fixed assets during the quarter. In Q4 2019, an impairment charge of $36.9 million was charged;
- Decrease in professional fees of $0.6 million, to $2.4 million as compared to $3.0 million in Q4 2019, which was primarily due to a reduction in consulting expenses related to the preparation and refiling of the Outstanding Annual Filings;
- Decrease in write-downs of receivables and investments and advances of $1.2 million, as the Company had less write downs for investments and advances; and
- Decrease in depreciation and amortization of $0.2 million, to $0.2 million as compared to $0.4 million in Q4 2019, recorded on the Company's property, plant and equipment, intangible assets, and right-of-use ("ROU") assets.

The decreases in total operating expenses outlined above were offset by increases during Q4 2020 in other areas, primarily related to an increase in general and administrative ("G&A") expenses of $0.8 million, to $5.4 million as compared to $4.6 million in Q4 2019, due primarily to office and general expenses of $1.3 million (Q4 2019 – $0.5 million). Additionally, there was an increase in share-based compensation of $0.3 million, to $0.6 million as compared to share-based compensation expense of $0.3 million in Q4 2019. The amount recorded in the current quarter is due to vesting of options granted to officers, directors, employees and consultants of the Company in December 2020, while the expense recorded in the comparative period is due to vesting of options and restricted share awards ("RSAs") which was mostly recognized during the first half of Fiscal 2019.

The Company recorded total other income of $1.5 million during Q4 2020, as compared to total other expense of $0.7 million incurred in Q4 2019, primarily from gains in foreign exchange. In addition, the Company recognized a net gain of $0.9 million from a write-down of the 280E provision for SJW related to the 2016 tax year that passed that statute of limitations, which was partially offset by an increase to the provision for SJW based on certain outcome of the tax court (see "Provisions" for more details).

During Q4 2020, the Company also recorded an income tax provision of $1.5 million (Q4 2019 – $0.7 million) based on estimated income taxes payable as at period-end.

Overall, net loss and comprehensive loss for the three months ended December 31, 2020 was $5.4 million (net loss of $0.14 per share), as compared to a net loss and comprehensive loss of $45.0 million (net loss of $1.40 per share) for the comparative period in 2019.

Cash flows

Net cash used in operating activities during Q4 2020 was $3.9 million, as compared to net cash used in operating activities of $2.3 million in Q4 2019. Toward the end of 2019, management had implemented cost cutting measures which specifically focused on reducing the Company's ongoing operating expenses. While the initiatives continued into Fiscal 2020 and to date, additional payments were made during the quarter.

Net cash provided by financing activities during Q4 2020 was $0.2 million, as compared to net cash used in financing activities of $0.1 million in Q4 2019. In Q4 2020, the Company recovered a payment of $0.1 million on a convertible note payment and received proceeds of approximately $32k from exercises of stock options. During Q4 2019, net cash used in financing activities was $0.1 million, comprised primarily of a repayment on one of the Company's notes payable.

Net cash used in investing activities during Q4 2020 was $0.4 million, primarily related to new property, plant and equipment required for the Company's upgrade of one of its Venlo Greenhouses at the Production Campus. During Q4 2019, net cash used in investing activities was $1.7 million, of which the majority was spent toward completing the acquisition of San Leandro Wellness Solutions Inc. ("SLWS").

Financial Information for the Year Ended December 31, 2020

Results of operations

During the year ended December 31, 2020, Harborside generated retail revenue of $42.0 million (2019 – $38.6 million) and wholesale revenue of $21.4 million (2019 – $10.5 million), for total gross revenue of $63.4 million (2019 – $49.5 million, including services and rental revenue – related party of $0.4 million from PMACC and SJW from January 1, 2019 up to the merger on January 7, 2019). The year-over-year increase in retail revenue was driven primarily by increased average basket size in the Company's retail stores, combined with new marketing initiatives aimed at increasing sales, improved in-store merchandising, and a focus on selling more products that were produced in-house. The Company experienced a temporary increase in sales due to COVID-19 during the last two weeks of the first quarter of 2020, which also contributed approximately $200,000 of incremental revenue for the period to date. The year-over-year increase in wholesale revenues was primarily due to improved harvest yields and production of premium flower varieties combined with higher sales volumes and higher average prices per pound of cannabis from the Production Campus.

During the year ended December 31, 2020, cost of goods sold for the retail and wholesale operations totalled $20.5 million and $11.5 million (2019 – $19.8 million and $11.3 million), respectively. During the year ended December 31, 2019, the Company also recorded total cost of service and rental revenue – related party of $0.3 million related to the services and rental revenue – related party.

Gross profit before biological asset adjustments for Fiscal 2020 was $28.0 million, or a gross margin of 46.8% (2019 – $16.0 million; gross margin before biological asset adjustments of 33.9%). During Fiscal 2020, the Company recorded an increase in FVLCS of biological asset transformation of $4.2 million (2019 – decrease in FVLCS of biological asset transformation of $4.2 million), and a realized fair value loss on amounts included in inventories sold of $2.6 million (2019 – realized fair value gain of $2.9 million), for an overall gross profit of $29.6 million and gross margin of 49.4% (2019 – gross profit of $14.8 million and gross margin of 31.3%). Year-over-year gross margin improvements were primarily due to an improved product mix containing more internally produced items, and selective revisions to retail pricing, combined with higher cultivation yields and higher average wholesale selling prices for bulk products.

The Company does not experience significant seasonality in its revenue and other important financial performance metrics. However, as a participant in the wholesale cannabis market in California, as a general matter, the overall supply of cannabis has historically increased in the months of September through December, due primarily from production of outdoor cannabis cultivation facilities whose major harvests occur during these months and which, as a result, could cause a general decrease in the wholesale price for cannabis products. The historical pattern of supplies increasing in the months of September through December did not occur in 2020 due to wildfires in northern California, which affected the harvests from outdoor growers and constricted overall supply.

During the year ended December 31, 2020, the Company incurred total operating expenses of $33.3 million (2019 – $72.8 million). The year-to-year decrease in total operating expenses is primarily related to the following items:

- Decrease in G&A expenses of $1.1 million, to $18.2 million as compared to $19.3 million in the comparative period in 2019, due primarily to:
    - Salaries and benefits of $11.2 million (2019 – $12.9 million);
    - Office and general expenses of $4.5 million (2019 – $3.4 million);
    - Advertising and promotion expenses of $0.9 million (2019 – $1.2 million);
    - Banking and processing fees of $0.8 million (2019 – $0.9 million);
    - Taxes and licenses expenses of $0.4 million (2019 – $0.1 million);
    - Travel and entertainment expenses of $0.3 million (2019 – $0.4 million); and
    - Bad debt expense of less than $0.001 million (2019 – $0.3 million).
- Decrease in professional fees of $1.5 million, to $8.9 million as compared to $10.4 million in 2019, which was primarily due to lower legal expenses incurred in the course of normal operations, offset by additional consulting expenses incurred in the preparation and refiling of the Outstanding Annual Filings, where as the Company was focused on closing the RTO Transaction in the prior year;
- Decrease in share-based compensation of $1.0 million, to $1.0 million as compared to share-based compensation expense of $2.0 million in 2019. The reduction noted in Fiscal 2020 is due to reversals of share-based compensation on forfeitures of options upon departures of certain former officers, offset by share-based compensation recorded on vesting of options granted in September and December 2020. In the prior year, the share-based compensation amount is due to vesting of options and RSAs which was mostly recognized during Fiscal 2018 and the first half of Fiscal 2019;
- Decrease in write-downs of receivables and investments and advances of $2.3 million, to $0.7 million as compared to $3.1 million in 2019. In Fiscal 2020, the Company wrote down various investments and advances based on current market conditions;
- Decrease in impairment loss of assets of $33.7 million, as the Company recorded impairments of $2.0 million on its fixed assets and $1.2 million on the disposal of Lakeside, one of the Company's legacy subsidiaries in October 2020, as compared to an impairment loss of $36.9 million recorded in Fiscal 2019; offset by
- An allowance for ECL of $0.2 million recorded based on management's assessment of credit losses and low recoverability on certain of its assets.

In addition, the Company incurred total other expenses of $2.1 million during Fiscal 2020, as compared to total other income of $12.5 million generated in the prior year, of which the change of $14.6 million primarily comprised of:

- Interest expenses of $4.7 million (2019 – $7.2 million), primarily related to interest financing agreements related to the Production Campus, combined with interest accrued on prior year Internal Revenue Code ("IRC") Section 280E provisions. In the prior year, interest and accretion were recorded on the Company's convertible debt obligations, for which all FLRish's debentures were either converted or exchanged into MVS or SVS on completion of the RTO Transaction;
- Gain from fair value change in derivative liabilities and preferred shares of $0.1 million (2019 – $19.8 million) recorded in the comparative period in 2019; offset by
- A net gain of $0.9 million (2019 – $nil) related to a write-down of the 280E provision for SJW related to the 2016 tax year that passed that statute of limitations in the amount of $1,435,603, which was partially offset by an increase to the provision for SJW based on certain outcome of the tax court (see "Provisions" for details); and
- A foreign exchange gain of $1.0 million (2019 – less than $0.01 million).

During Fiscal 2020, the Company recorded an income tax provision of $6.1 million (2019 – $4.0 million) based on estimated income taxes payable as at year-end.

Overall, net loss and comprehensive loss for the year ended December 31, 2020 was $11.9 million (net loss of $0.28 per share), as compared to a net loss and comprehensive loss of $49.5 million (net loss of $1.49 per share) for the prior year in 2019.

Cash flows

Net cash used in operating activities during Fiscal 2020 was $1.7 million, as compared to net cash used in operating activities of $9.3 million in 2019. Toward the end of Fiscal 2019, management had implemented cost cutting measures which specifically focused on reducing the Company's ongoing operating expenses. The initiatives continued into Fiscal 2020 and to date. As a result, net spending in operations had substantially decreased as compared to the prior year. In 2019, the Company spent substantially more in operations out of necessity, as management embarked on an expansion strategy in California, as well as focusing its efforts on the RTO Transaction during the first half of Fiscal 2019.

Net cash used in financing activities during Fiscal 2020 was $0.1 million, primarily from a principal repayment of $150,000 on the convertible note, which were offset by proceeds from exercises of stock options for less than $0.1 million. In the prior year, the Company raised total funds of $11.4 million from its financing activities. In May 2019, the Company raised gross proceeds of $14.6 million from a concurrent offering prior to the RTO Transaction, which were offset by cash issuance costs of $1.4 million. In the prior year, a repayment of $1.9 million was also made on one of the Company's notes payable, which was offset by proceeds of $0.1 million received from exercises of stock options.

Net cash used in investing activities during Fiscal 2020 was $0.9 million, as the Company spent approximately $0.8 million on additions of new property, plant and equipment required for the Company's upgrade of one of its greenhouse buildings at the Production Campus, and also made an advance of $0.1 million to a related party. In the prior year, net cash used in investing activities was $4.8 million. In 2019, the Company advanced approximately $1.0 million to SLWS before acquiring its remaining 50% interest for a further $1.7 million. It had also advanced $1.0 million to Airfield Supply Company, an investment which the Company is no longer pursuing. The Company also spent $3.4 million in property, plant and equipment as construction of the Venlo Greenhouse was completed in 2019.

Reconciliation of Non-IFRS Measures

The following information provides reconciliations of the supplemental non-IFRS financial measures, presented herein to the most directly comparable financial measures calculated and presented in accordance with IFRS. The Company has provided the non-IFRS financial measures, which are not calculated or presented in accordance with IFRS, as supplemental information.

These supplemental non-IFRS financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believes that the supplemental non-IFRS financial measures presented provide additional perspective and insight when analyzing the core operating performance of the business. These supplemental non-IFRS measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the IFRS financial measures presented. The following table reconciles non-IFRS measures to the most directly comparable IFRS measures.

Adjusted Gross Profit & Adjusted Gross Margin

Adjusted Gross Profit and Adjusted Gross Margin exclude the fair value adjustments of biological assets.

	Three months ended December 31, 2020	Three months ended December 31, 2019	**Year ended December 31, 2020**	Year ended December 31, 2019
	$	$	**$**	$
Net Revenue	**12,595,320**	11,310,989	**59,953,717**	47,341,149
Gross Profit	**6,722,582**	3,055,901	**29,594,208**	14,815,163
Adjusted for:				
Net effect of change in fair value less cost to sell of biological asset transformation	**(1,219,932)**	989,483	**(4,174,784)**	4,158,924
Adjusted Gross Profit	**5,502,650**	4,045,384	**25,419,424**	18,974,087
Adjusted Gross Margin	**43.7%**	35.8%	**42.4%**	40.1%

After adjusting for the effect of change in the fair value of biological asset transformation, the Adjusted Gross Profit for Q4 2020 and Fiscal 2020 was $5.5 million and $25.4 million (Q4 2019 – $4.0 million and 2019 – $19.0 million), respectively. The Adjusted Gross Margin for Q4 2020 and Fiscal 2020 was 43.7% and 42.4% (Q4 2019 – 35.8% and 2019 – 40.1%), respectively.

Adjusted EBITDA & Adjusted EBITDA Margin

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

	Three months ended December 31, 2020	Three months ended December 31, 2019	**Year ended December 31, 2020**	Year ended December 31, 2019
	$	$	**$**	$
Net Loss	**(5,397,824)**	(44,961,964)	**(11,946,690)**	(49,458,115)
Adjusted for:				
Biological assets adjustments	**(438,544)**	88,927	**(1,551,657)**	1,214,008
Share-based compensation	**567,860**	323,832	**1,058,671**	2,028,267
Write-down of receivables and investments and advances	**456,083**	1,671,492	**706,363**	3,069,620
Impairment loss	**3,200,339**	36,924,031	**3,200,339**	36,924,031
Depreciation and amortization	**147,074**	403,013	**996,729**	1,052,395
Depreciation included in COGS	**492,843**	354,386	**2,023,820**	1,430,573
Interest expense	**1,129,958**	1,145,888	**4,707,664**	7,220,798
Provision for 280E	**(912,003)**	-	**(912,003)**	-
Fair value change in derivative liabilities	**(52,162)**	(415,240)	**(67,389)**	(19,789,470)
Foreign exchange (gain) loss	**(1,365,452)**	68,588	**(1,044,287)**	(4,235)
Non-recurring expenses	**1,425,950**	428,957	**4,082,577**	3,425,879
Income tax provision	**1,456,990**	694,331	**6,115,132**	4,018,218
Adjusted EBITDA	**711,112**	(3,273,759)	**7,369,269**	(8,868,031)
Adjusted EBITDA Margin	**5.6%**	(28.9%)	**12.3%**	(18.7%)

After adjusting for interest, provisions for income taxes, and adjusted for removing other non-cash or extraordinary non-recurring items, including depreciation and amortization, share-based compensation, non-cash provisions, the non-cash effects of accounting change in biological asset adjustments and derivative liabilities, the Adjusted EBITDA for Q4 2020 and Fiscal 2020 was an adjusted income of $0.7 million and $7.4 million (Q4 2019 – adjusted loss of $3.3 million and 2019 – adjusted loss of $8.8 million), respectively. The Adjusted EBITDA Margin for Q4 2020 and Fiscal 2020 was 5.6% and 12.3% (Q4 2019 – adjusted negative EBITDA margin of 28.9% and 2019 – 18.7%), respectively.

Working Capital and Liquidity Outlook[7]

The Company's primary need for liquidity is to fund the working capital requirements of its business, capital expenditures, debt service and for general corporate purposes. The Company's primary source of liquidity is funds generated by operating activities. The Company also relies on private and/or public financing as a source of liquidity for short-term working capital needs and general corporate purposes. The Company's ability to fund operations, to make planned capital expenditures, to make scheduled debt payments and to repay or refinance indebtedness depends on its future operating

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

performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond management's control.

As at December 31, 2020, the Company had total current assets of approximately $19.8 million (December 31, 2019 – approximately $18.3 million), including cash of approximately $10.5 million (December 31, 2019 – approximately $12.1 million) to settle current liabilities of approximately $63.5 million (December 31, 2019 – approximately $56.4 million), for a net working capital deficiency of approximately $43.8 million (December 31, 2019 – working capital deficiency of approximately $38.1 million).

The higher amount of current liabilities as at December 31, 2020 is primarily due to the Company's provision for an uncertain tax position related to Section 280E of the IRC, and the estimated income taxes payable as at year-end. The Company does not currently expect any resultant potential liabilities, or any possible payments resulting from its 280E provision to be resolved within 12 months of the issuance date of the 2020 Financial Statements. See "Provisions" for additional information.

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

Related Party Transactions

Key Management Personnel Compensation

Key management includes directors and officers of the Company. Total compensation (comprised of salaries, one-time bonuses related to the RTO Transaction and share-based payments) awarded to key management for the years ended December 31, 2020 and 2019 was as follows:

	2020	2019
	$	$
Short-term employee benefits, including salaries and directors' fees	**2,216,320**	2,068,707
Executive bonus	**157,500**	-
Bonuses related to RTO Transaction	**-**	730,796
Severance payments	**829,162**	528,116
Share-based compensation – Directors and Executives	**813,537**	1,505,746
	4,016,519	4,833,365

As at December 31, 2020, $26,250 was owed to Peter Bilodeau, Interim CEO (December 31, 2019 – $1,055). This amount was due to Emtra Business Services Inc., a company controlled by Mr. Bilodeau through which Mr. Bilodeau is compensated for his services as the Interim CEO of the Company.

As at December 31, 2020, there were no amounts owed to John Nichols, the General Counsel and Chief Compliance Officer of the Company (December 31, 2019 – $3,720).

As at December 31, 2020, there were no amounts owed to Steve DeAngelo, former CEO and a former director of FLRish (December 31, 2019 – $19,375). 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 at December 31, 2020, $2,463 (December 31, 2019 - $8,938) was owed to Greg Sutton, the former Chief Operating Officer of Cultivation and Manufacturing of the Company.

As at December 31, 2020, $35,604 (December 31, 2019 – $30,712) was owed to Tom DiGiovanni, the Chief Financial Officer. This amount was due to Newhouse Development LLC, a company controlled by Mr. DiGiovanni through which Mr. DiGiovanni is compensated for his services as the Chief Financial Officer of the Company.

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

On September 1, 2020, an aggregate of 2,235,000 options were granted to directors and officers of the Company, with an exercise price of C$0.95 per share. 1,625,000 of the options expire on September 1, 2025. The remaining 610,000 expire on November 24, 2021. One quarter of the options vested immediately upon grant, and the balance vested on November 24, 2020 in connection with certain changes to the Board of Directors.

On December 23, 2020, an aggregate of 840,000 options were granted to the new Board of Directors of the Company with an exercise price of C$1.83 per share. The options vest in equal annual installments over four years and expire on December 23, 2025.

Related Parties

Foundation Group of Companies

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

On February 28, 2018, FMICAI and FLRish executed a consulting agreement whereby FMICAI would provide merger and capital raising consulting services to FLRish (the "FMICAI Consulting Agreement"). Under the FMICAI Consulting Agreement, FMICAI was compensated by means of a monthly fee in the amount of C$15,000, which terminated upon completion of the RTO, and a success fee ranging from 2 to 4% of the transaction value for either an M&A transaction or an acquisition. For the year ended December 31, 2019, Harborside paid FMICAI $56,528 (C$75,000) in fees related to the FMICAI Consulting Agreement. This amount was recorded as professional fees in the Company's consolidated statements of loss and comprehensive loss. There were no payments made to FMICAI during the year ended December 31, 2020.

On December 3, 2018, FMICAI and FLRish entered into an advisory agreement (the "FMICAI Advisory Agreement") whereby FMICAI would provide consulting services to the Company in addition to those contemplated under the FMICAI Consulting Agreement. In consideration of the additional services provided by FMICAI pursuant to the FMICAI Advisory Agreement, FMICAI is entitled to cash fees equal to an aggregate of $732,970 (C$1,000,000) and 143,241 advisory warrants. Each advisory warrant is exercisable into one share at an exercise price of $4.15 (C$6.90) per share until the earlier of 60 months from December 3, 2018 or 24 months from the completion of the RTO Transaction. The Company paid $281,222 (C$370,000) during the year ended December 31, 2019 related to the FMICAI Advisory Agreement. This amount was recorded as professional fees in the Company's consolidated statements of loss and comprehensive loss. No services were provided by FMI or FMICAI during the year ended December 31, 2020.

On August 28, 2019, FMICAI entered into a new advisory agreement with Harborside (the "M&A Advisory Agreement") for C$8,000 a month, which applies retroactively to July 1, 2019. Under the M&A Advisory Agreement, FMICAI charged $36,178 (C$48,000) for advisory services to the Company during the year ended December 31, 2019. These charges were included in professional fees in the Company's consolidated statements of loss and comprehensive loss. In addition to these transactions, FMI and FMICAI engaged in other transactions with the Company described in Notes 14, 15 and 19 of the 2020 Financial Statements.

No balances were owed to FMI or FMICAI as at December 31, 2020 and 2019.

In December 2020, FMICAI, entered into a share purchase agreement with Cachee for the purchase of common stock in exchange for an equity interest in Cachee.

Quinsam Capital Corporation

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

Nutritional High International Inc.

Adam Szweras, a former director of the Company, serves as the Chairman of the Board of Directors of Nutritional High International Inc. ("Nutritional High"), a public company that manufactures and processes hemp and cannabis infused oils, extracts, and edible products for medical and adult use. During the year ended December 31, 2020, the Company made purchases at arm's length market rates in the amount of $344,607 (2019 – $655,322) from a subsidiary of Nutritional High. As at December 31, 2020, an amount of $4,449 (December 31, 2019 – $103,687) owing to Nutritional High was included in accounts payable and accrued liabilities in the Company's consolidated statements of financial position. Additionally, during the year ended December 31, 2020, Nutritional High (Calyx) made purchases at arm's length market rates in the amount of $276,316 from the Company (2019 – $nil). As at December 31, 2020, an amount of $169,350 (December 31, 2019 – $nil) was owed from Calyx and included in accounts receivable, net in the Company's 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. (formerly Flow Kana Inc.), a California Company that offers a wide range of California's cannabis CPG brands. During the year ended December 31, 2020, the Company made purchases from Flow Cannabis Co. at arm's length market rates in the amount of $91,993. As at December 31, 2020, an amount of $6,705 owing to Flow Cannabis Co. was included in accounts payable and accrued liabilities in the Company's consolidated statements of financial position.

Entourage Effect Capital LLC

Matthew Hawkins and Andrew Sturner, directors of the Company, are partners of Entourage Effect Capital (formerly known as Cresco Capital Partners) ("Entourage"). Mr. Hawkins is the managing partner of Cresco Capital Partners II LLC ("CCPII"), which subscribed for 288,000 Subscription Receipts for $1,496,880 (C$2,016,000) under the Concurrent Offering in May 2019.

Entourage in an investor in Sublime Canna ("Sublime"). During the year ended December 31, 2020, the Company made purchases from Sublime at arm's length market rates in the amount of $170,236. As at December 31, 2020, an amount of $56,788 owing to Sublime was included in accounts payable and accrued liabilities in the Company's consolidated statements of financial position. Additionally, during the year ended December 31, 2020, Sublime made purchases at arm's length market rates in the amount of $643,837 from the Company. As at December 31, 2020, a credit of $36,914 related to an overpayment was included in accounts receivable, net in the Company's consolidated statements of financial position.

Edge Financial Consulting Services Group

Peter Kampian, a director of the Company, is the CEO of Edge Financial Consulting Services Group ("Edge Financial"), which provides financial advice to senior management of various public and private cannabis companies. During the year ended December 31, 2020, the Company was charged $7,461 (2019 – $nil) for consulting services provided by Edge Financial related to restatement work on the Outstanding Annual Filings, prior to Mr. Kampian becoming a director. As at December 31, 2020, no balance was owed to Edge Financial (December 31, 2019 – $nil).

Branson Corporate Services Ltd.

Branson Corporate Services Ltd. ("Branson") provides finance, accounting and administrative services to the Company. Mr. Bilodeau holds a 18% ownership interest, Mr. Szweras holds a 15% ownership interest, and an immediate family member of Mr. Szweras owns a 24% ownership interest in Branson. During the year ended December 31, 2020, the Company was charged $280,213 (2019 – $139,462) for services provided by Branson, which is included in professional fees in the Company's consolidated statements of loss and comprehensive loss, and of which $115,296 related to restatement work on the Outstanding Annual Filings. As at December 31, 2020, an amount of $15,975 (December 31, 2019 – $nil) owing to Branson was included in accounts payable and accrued liabilities in the Company's consolidated statements of financial position.

Black Oak Ventures Ltd.

On April 10, 2020, Black Oak Ventures Ltd. ("Black Oak"), an entity where its principal is an immediate family member of the Company's CEO, entered into a consulting agreement to provide certain investor relations services to the Company in exchange for cash compensation. During the year ended December 31, 2020, the Company was charged $95,333 for services provided by Black Oak, which is included in professional fees in the Company's consolidated statements of loss and comprehensive loss. As at December 31, 2020, an amount of $12,602 was owed to Black Oak and was included in accounts payable and accrued liabilities in the Company's consolidated statements of financial position.

Amounts due to related parties

As part of the FGW Agreement, the Company issued the FGW Note (as defined in "Acquisitions") in the amount of $1,265,000 of which $150,000 was allocated to pay all indebtedness outstanding at closing of the FGW Transaction. As at December 31, 2020, $62,702, $13,401, $26,323, $26,323 and $15,251 owing to Equinox B Limited Partners, LLC, Otter Brands, LLC, Matthew T. Henri, Marti Leann Brass and Damien Posey, respectively, was included in due to related parties in the Company's consolidated statements of financial position. In addition, there was $6,000 due to an unrelated party that was included as a component of accounts payable and accrued liabilities in the Company's consolidated statements of financial position.

Legal transactions

For the year ended December 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 $660,942 (2019 – $803,036) for legal services, an amount which is recorded as professional fees in the Company's consolidated statements of loss and comprehensive loss. As at December 31, 2020, an amount of $548,654 (December 31, 2019 – $115,663) owing to Aird & Berlis was included in accounts payable and accrued liabilities in the Company's consolidated statements of financial position.

For the year ended December 31, 2020, Fogler, Rubinoff LLP ("Fogler"), a law firm in which Adam Szweras is a partner, provided a credit of $6,390 (charged as at December 31, 2019 – $376,672) for legal services previously provided to the Company, which was netted against professional fees in the Company's consolidated statements of loss and comprehensive loss. As at December 31, 2020, there were no amounts owed to Fogler (December 31, 2019 – $54,846).

Other Related Party Transactions

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

On June 1, 2020, the Company entered into an additional consulting agreement with Newhouse to provide financial and accounting services related to one of the Company's MSAs in exchange for cash compensation. The services are being provided by an immediate family member of the Company's CFO. As at December 31, 2020 a total of $35,604 was owed to Newhouse, of which $7,688 was related to the June 1, 2020 agreement and $27,916 was related to the agreement described in section (a) above.

On September 1, 2020, FLRish 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, and the maturity date may be extended by 90 days at the option of the Company. Subsequent to December 31, 2020, the Company extended the maturity date to June 30, 2021.

The note is secured by 400,000 SVS held by Mr. Nichols. As at December 31, 2020, principal and accrued interest amounted to $101,337.

PMACC and SJW

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

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

The Retail MSAs executed in July 2016 have a term of five years and renew automatically for two additional five-year periods, unless, on or before the dates of renewal, the Company or the clients determine, in their sole discretion, that the agreements shall not renew. During the year ended December 31, 2020, the Company revised the existing MSAs.

Fees for services rendered pursuant to the Retail MSAs are equal to 15% of dispensary gross revenues plus reimbursement of expenses incurred on behalf of the Harborside dispensaries, and are payable monthly. In fiscal 2019, Harborside recognized contract services revenue of $83,187 for the period prior to January 7, 2019 (when PMACC and SJW were not considered to be under common control with FLRish).

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

Prior to the merger on January 7, 2019, Harborside had recognized contract services revenue of $275,321.

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

The outstanding accounts receivable balance of $22,303,626 on January 7, 2019, was included as part of the total consideration paid for acquisition of PMACC and SJW by Harborside.

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

Pursuant to a transaction dated December 25, 2017, PMACC had acquired 50% of the 100,000 authorized and issued common shares of SLWS, for the purchase price of $3,000,000 to be satisfied with a promissory note in the principal amount of $3,000,000 payable to FLRish, as the seller. Due to the interest rate on the promissory note being below market rate, PMACC had discounted the note payable and investment in SLWS in the amount of $1,580,359, based on a 12.0% annual interest rate.

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

SLWS

On January 7, 2019, as part of the acquisition of PMACC, the Company acquired a 50% ownership interest in SLWS that had a fair value of $160,000 plus advances in the amount of $1,052,807.

From January 7, 2019 to October 8, 2019, the Company advanced an additional $975,266 to SLWS, which was settled as part of the acquisition on October 8, 2019.

Financial and 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.

Liquidity risk

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

As at December 31, 2020, the Company had a cash balance of $10,458,545 (December 31, 2019 – $12,164,927) to settle current liabilities of $63,466,254 (December 31, 2019 – $56,376,734). The higher current liabilities as at December 31, 2020 and 2019 is primarily due to the Company's provision for an uncertain tax position.

The Company has the following contractual obligations as at December 31, 2020:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	> 5 Years	Total
Accounts payable and accrued liabilities	$17,198,715	$ -	$ -	$ -	$17,198,715
Convertible notes payable	473,908	-	-	-	473,908
Income tax payable	7,382,002	-	-	-	7,382,002
Note payable and accrued interest	908,004	1,861,404	1,997,592	14,971,539	19,738,539
	$25,962,629	$ 1,861,404	$ 1,997,592	$14,971,539	$44,793,164

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

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

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 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 accounts receivable is minimal.

Market risk

Interest rate risk

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

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., where the majority of 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.

Asset forfeiture risk

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

Banking risk

Notwithstanding that a majority of states have legalized medical cannabis, and the 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 FCSA, there is an argument that banks cannot accept funds for deposit from businesses involved with the cannabis industry.

Due to the present state of the laws and regulations governing financial institutions in the 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.

Tax risk

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

Regulatory risk

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

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

Capital Management

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

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

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

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

Summary of Significant Accounting Policies

A summary of the significant accounting policies which have been applied consistently to all periods presented in the Company's consolidated financial statements are set out below:

Basis of Consolidation

The 2020 Financial Statements include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in IFRS 10 – *Consolidated Financial Statements* ("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 2020 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.

Cash

Cash and cash equivalents are comprised of funds held in banks, funds held in trust with the Company's legal counsel (which is available on demand with no restrictions), and cash held at the Company's operating premises in Oregon and California. Cash equivalents include investments and deposits that mature within three months. The Company did not have any cash equivalents as at December 31, 2020 and 2019.

Inventories

Inventories are measured at the lower of cost and net realizable value ("NRV"), which is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. The Company measures inventory cost using the weighted average method.

Inventories of harvested cannabis are transferred from biological assets into inventories at their fair value at harvest less costs to sell, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventories to the extent that cost is less than NRV. Packaging and supplies are initially valued at cost. All direct and indirect costs related to inventories are capitalized as they are incurred, and expensed when the related item is sold.

Biological Assets

The Company's biological assets consist of cannabis plants. The Company measures biological assets at fair value less costs to complete and sell up to the point of harvest. Unrealized gains or losses arising from the changes in fair value, less costs to complete and sell during the period, are separately recorded in the consolidated statements of loss and comprehensive loss for the related period. At the point of harvest, the biological assets are transferred to inventories at their fair value less costs to complete and sell. All direct and indirect costs related to biological assets are capitalized as they are incurred, and expensed when the related item is sold.

While the Company's biological assets are within the scope of IAS 41 – *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 – *Inventories*. These include the direct cost of labor, seeds and growing materials, as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labor for individuals involved in the growing and quality control process is also included, as well as certain overhead costs related to the growing facility. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are subsequently recorded within cost of goods sold in the period that the related products are sold.

Investments in and Advances to Unconsolidated Associates

Associates are companies over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence represents the power to participate in the financial and operating policy decisions of the investee but does not represent the right to exercise control or joint control over those policies.

Investments in associates are accounted for using the equity method and are initially recognized at cost, excluding financial assets that are not in-substance SVS and inclusive of transaction costs. When the Company holds marketable securities or derivative financial assets and subsequently obtains significant influence in that investee, the fair value of the financial instruments is reclassified to investments in associates at the deemed cost, with the cumulative unrealized fair value gains or losses in other comprehensive loss, if any, transferred to deficit.

The consolidated financial statements include the Company's share of the investee's income, expenses and equity movements. Where the Company transacts with its associates, unrealized profits or losses are eliminated to the extent of the Company's interest in the associate.

Investments in associates are assessed for indicators of impairment at each period end. An impairment test is performed when there is objective evidence of impairment, such as significant adverse changes in the environment in which the equity-accounted investee operates, or there is a significant or prolonged decline in the fair value of the investment below its carrying amount. An impairment loss is recorded when the recoverable amount is lower than the carrying amount. An impairment loss is reversed if the reversal is related to an event occurring after the impairment loss is recognized. Reversals of impairment losses are recognized in profit or loss and are limited to the original carrying amount under the equity method as if no impairment had been recognized for the asset in prior periods. The Company uses judgment in assessing whether impairment has occurred, or a reversal is required as well as the amounts of such adjustments.

Property, Plant and Equipment

Property, plant and equipment is measured at cost, net of accumulated depreciation and amortization and any impairment losses. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Land	Not depreciated
Agricultural buildings	15 years
Agricultural equipment	5 years
Furniture and fixtures	7 years
Vehicles	5 years
Office and computer equipment	3 – 5 years
Security equipment	5 years
Leasehold improvements	Remaining life of lease

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

Expenditures for repairs and maintenance are charged to general and administrative expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any related gain or loss is reflected in income for the period.

Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and any impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite-lived intangible assets is calculated on a straight-line basis over their estimated useful lives. The Company has a trademark which is amortized over its estimated useful lives of four years. The Company's licenses were assigned an indefinite life, based on the expected use by the Company and as there are no legal, regulatory or economic factors that limit the useful life.

The estimated useful lives, residual values and amortization methods are reviewed annually and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life are not subject to amortization, but are instead tested for impairment annually.

Impairment of Long-Lived Assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less cost of disposal, and its value in use. If the carrying amount of an asset exceeds it recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded if no impairment loss had been recognized previously. For the years ended December 31, 2020 and 2019, the Company recorded an impairment loss of $3,200,339 and $36,924,031, respectively.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

Goodwill is measured at historical cost and is evaluated for impairment annually in the fourth quarter or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of a CGU, including goodwill, exceeds the recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value in use. Impairment losses recognized in respect of the CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in profit or loss in the reporting year in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

Loans and Borrowings

Loans and borrowings are classified as other financial liabilities and are measured at fair value at initial recognition and subsequently at amortized cost. Transactions costs are deferred and amortized over the term of the liability.

Leases

The Company primarily leases office, cultivation and processing and retail space. The Company assesses whether a contract is or contains a lease, at inception of a contract.

The ROU asset is initially measured at cost, which is primarily comprised of the initial amount of the lease liability, plus initial direct costs and lease payments at or before the lease commencement date, less any lease incentives received, and is amortized on a straight-line basis over the remaining lease term. All ROU assets are reviewed periodically for impairment. The lease liability is initially measured at the present value of lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The Company elected to recognized expenses for leases with a term of 12 months or less and leases of low-value assets as expenses as incurred. Leases have varying terms with remaining lease terms of up to approximately 15 years.

Lease payments included in the measurement of the lease liability comprise (a) fixed payments, including in-substance fixed payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and (d) the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early. At inception or reassessment of a contract that contains lease and non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Convertible Debentures

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit and loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost.

Given that it is subject to various inputs, assumptions and estimates including contractual future cash flows, discount rates, credit spreads and volatility, the determination of the fair value is also an area of significant judgment. Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds.

Provisions

A provision is recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Income Taxes

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses which are directly related to the cost of producing the products or cost of production. This results in permanent differences between ordinary and necessary business expensed deemed unallowable under IRC Section 280E.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The Company is treated as a U.S. corporation for U.S. federal income tax purposes under section 7874 of the U.S. Tax Code and is subject to the U.S. federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada) (the "ITA") for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the U.S. Notwithstanding the foregoing, it is management's expectation that the Company's activities will be conducted in such a manner that income from operations will not be subjected to double taxation.

IFRIC 23 – *Uncertainty over Income Tax Treatments* ("IFRIC 23") provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. As of December 31, 2020, the Company has completed an assessment for circumstances in which there is uncertainty over income tax treatments and has not recorded any uncertain tax positions.

Revenue Recognition

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Cultivation taxes are a production tax which becomes payable when a cannabis product enters the commercial market and is not directly related to the value of sales. These taxes are netted against gross sales on the Company's consolidated statements of loss and comprehensive loss. Excise duties and taxes collected on behalf of third parties are excluded from revenue. Net revenue from the sale of goods represents revenue from the sale of goods less applicable cultivation taxes and price discounts.

The Company's policy for the timing and amount of revenue to be recognized is based on the following 5-step process in accordance with IFRS 15 – *Revenue from Contracts with Customers*:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price, which is the total consideration provided by the customer;
- Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The Company has concluded that revenue from the sale of products should be recognized at the point in time when control is transferred to the customer. The Company transfers control and satisfies its performance obligations upon delivery and acceptance by the customer.

<u>Dispensary Revenue</u>

Revenue from the direct sale of cannabis to customers for a fixed price is recognized when the Company transfers control of the goods to the customer at the point of sale and the customer has paid for the goods.

Cultivation and Wholesale Revenue

The Company recognizes revenue from the sale of cannabis for a fixed price upon the delivery of cannabis goods. The Company transfers control and satisfies its performance obligations upon delivery and acceptance by the customer.

Loyalty Program

The Company has a loyalty rewards program that allows retail customers to earn reward points to be used on future purchases of goods at a price that reflects a significant discount from the stand-alone selling price of a product. This program provides a customer with a material right which is accounted for as a separate performance obligation. Management calculates the estimated value of each point redeemable based on the weighted average of the value of the points redeemed and the distribution of the redemption values. Based on the stand-alone selling price allocation, management allocates a portion of the gross sales revenue to the material right. As the points are redeemed, a proportionate amount of material right is recognized as revenue and at year-end the amount of the material right represented by the unredeemed points is carried forward as a liability.

As at December 31, 2020 and 2019, the Company had a loyalty program liability of $685,642 and $607,682, respectively, which was recorded as a component of accounts payable and accrued liabilities in the Company's consolidated statements of financial position.

Share Capital

Shares

The voting securities of the Company consist of an unlimited number of SVS and MVS (collectively, "Shares"). The Shares are classified as equity. Transaction costs directly attributable to the issuance of Shares and options to purchase Shares are recognized as a reduction in equity.

Equity units

Proceeds received on the issuance of units, comprised of Shares and warrants are allocated to Shares and warrants based on the residual method.

Share-Based Payments

Stock options

Stock options issued to employees are measured at fair value at the grant date and are recognized as an expense over the relevant vesting periods with a corresponding credit to reserve for share-based payments.

Stock options issued to non-employees are measured at either the fair value of goods or services received, or the fair value of equity instruments issued if it is determined that the fair value of the goods or services cannot be reliably measured. The fair value of non-employee stock options is recorded as an expense at the date the goods or services are received.

The fair value of options is calculated using the Black-Scholes-Merton option pricing model. When determining the fair value of stock options, management is required to make certain assumptions and estimates related to expected lives, volatility, risk-free rate, future dividend yields and estimated forfeitures at the initial grant date.

The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to share capital in the year of forfeiture or expiry.

Upon the exercise of stock options, proceeds received from stock option holders are recorded as an increase to share capital.

Restricted Stock Awards ("RSAs")

RSAs are equity-settled share-based payments. RSAs are measured at their fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant and are recognized as share-based compensation expense over the vesting period, with a corresponding credit to reserve for share-based payments. Upon the release of RSAs, the related reserve for share-based payments is transferred to share capital.

The amount recognized for services received as consideration for the RSAs granted is based on the number of equity instruments that eventually vest. Amounts recorded for forfeited RSAs are transferred to deficit in the year of forfeiture or expiry.

Loss per Share

The Company calculates basic loss per share by dividing net loss by the weighted average number of shares outstanding during the period. Diluted loss per share is determined by adjusting loss attributable to common shareholders and the weighted average number of shares outstanding, for the effects of all dilutive potential shares, which comprise convertible debentures, restricted stock awards, warrants and stock options issued.

The Company's potentially dilutive securities have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the weighted average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to shareholders is the same.

Non-Controlling Interests

Non-controlling interests ("NCI") are recognized either at fair value or at the NCI's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis at the date of acquisition. Changes in a Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

As at December 31, 2020, the Company held a 21% ownership interest in FGW from an acquisition that occurred during the year ended December 31, 2020.

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Fair Value Measurements

The Company measures certain financial and non-financial assets and liabilities at fair value at each statement of financial position date. In addition, fair value measurements are disclosed for certain financial and non-financial assets and liabilities.

Fair value is the price that would either be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and disclosure purposes is determined on such a basis, except for share-based payment transactions, and measurements that have some similarities to fair value but are not fair value, such as net realizable value or value in use.

Assets and liabilities, for which fair value is measured or disclosed in the consolidated financial statements, are classified using a three-level fair value hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements. Each level is based on the following:

- Level 1 - inputs are unadjusted quoted prices of identical assets or liabilities in active markets.

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

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of an asset or liability in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's biological assets and derivative liabilities are classified within level 3 of the fair value hierarchy.

There have been no transfers between hierarchy levels during the years ended December 31, 2020 and 2019.

Financial Instruments

The Company classifies and measures financial instruments in accordance with IFRS 9 – *Financial Instruments* ("IFRS 9"). 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.

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 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.

<u>Financial assets classified at fair value through profit or loss</u>

The 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 December 31, 2020 and 2019, 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.

<u>Non-derivative financial liabilities</u>

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.

<u>Derivative financial instruments – warrants and options</u>

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 December 31, 2020:

Financial Assets / Financial Liability	Classification
Cash and cash equivalents	Amortized cost
Accounts receivable, net	Amortized cost
Deposits	Amortized cost
Investments	FVTPL
Advances	Cost
Accounts payable and accrued liabilities	Amortized cost
Note payable and accrued interest	Amortized cost
Convertible notes payable	Amortized cost
Derivative liabilities	FVTPL

The Company recognizes a provision for ECL 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 ECL 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 ECL at each reporting date.

ECL 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 ECL associated with its assets carried at amortized cost. The Company measures ECL by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Critical Accounting Judgments and Estimates

The preparation of the Company's consolidated financial statements in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the application of 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 consolidated financial statements are described below.

<u>Business combination</u>

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.

<u>Fair value of biological assets and inventories</u>

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

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

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

- Estimating the stage of growth of 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.

<u>Provision for expected credit losses ("ECL")</u>

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 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.

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

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.

Income taxes

Income taxes and tax exposures recognized in the Company's 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 December 31, 2020 and 2019 relates to a provision for uncertain tax positions under IRC Section 280E for PMACC and 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 IRS 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. 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 December 31, 2020. 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.

As indicated in Note 16 of the 2020 Financial Statements, the Company has recognized a provision for particular uncertain tax positions which are related to the PMACC and SJW business combinations. The Company strongly disagrees with the positions taken by the Internal Revenue Service and the findings of the Tax Court. 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.

The Company's 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.

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 these amendments did not have a material impact on the Company's 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 is 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 Company's consolidated financial statements.

<u>Business Combinations</u>

On October 22, 2018, the IASB issued a narrow scope amendment to IFRS 3 – *Business Combinations* ("IFRS 3"). 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.

Recent Accounting Pronouncements

The Company is currently assessing the impact of adopting the new standards and amendments will have on its consolidated financial statements. No material impact is expected upon the adoption of the following amendments:

<u>Amendment to IAS 1 – Classification of Liabilities as Current or Non-Current</u>

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 its consolidated financial statements.

Acquisitions

Acquisitions during the year ended December 31, 2020

On December 18, 2020, the Company entered into the FGW Agreement to acquire a 50.1% interest in FGW, with an initial ownership interest of 21%. FGW is a company that has the conditional use approval necessary to operate a retail cannabis dispensary and related businesses in the Haight Ashbury area of San Francisco, California. FGW is not currently generating revenue. Upon receipt of certain regulatory approvals from the Director of the Office of Cannabis in San Francisco relating to the FGW Transaction (the "Specified Approval"), the Company's total ownership in FGW will increase to 50.1%, upon the conversion of the convertible note issued to the Company on closing of the FGW Transaction (the "FGW Note"), valued at $1,265,000. If the Specified Approval has not been obtained by June 30, 2021, or notification has been provided that the Specified Approval will not be granted, the principal amount of the FGW Note plus all accrued and unpaid interest will become immediately due and payable by FGW upon notification by the Company that it wishes to convert the FGW Note. Upon such time, all shareholders of FGW excluding the Company, are obligated to contribute to FGW such number of FGW shares as is equal to 29.1% of the issued and outstanding FGW shares (the "Additional Shares"), and FGW will repay the Company in full the principal amount of the FGW Note with the Additional Shares plus all accrued and unpaid interest in cash.

The FGW Note bears interest at 4.0% per annum and matures on June 30, 2031. Conversion of the FGW Note is expected to occur in the fall of 2021. Subject to the Specified Approval being obtained, the Company will negotiate a definitive agreement relating to the purchase of an additional 29.9% of the issued and outstanding equity of FGW (the "Subsequent Shares") to get to a total equity ownership of FGW of 80%. The aggregate purchase price for the Subsequent Shares will be $1,300,650, which will be satisfied in MVS priced at the greater of: (i) the 30-day volume weighted average price of the SVS on the CSE ending on the day prior to closing of the purchase of the Subsequent Shares, less a 10% discount, multiplied by 100; (ii) C$150 per MVS; or (iii) such other price as may be approved by the CSE. The Company will also have a first right refusal to purchase, in its discretion, in whole or in part and in one or more closings, the remaining 20% of the equity of FGW subject to regulatory approvals, including the Specified Approval.

It was determined that FGW did not constitute a business in accordance with IFRS 3. Accordingly, the FGW Transaction was accounted for as an asset acquisition.

The following table summarizes the allocation of consideration exchanged in connection with the FGW Transaction to the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed:

		FGW
Acquisition date		December 18, 2020
Fair value of consideration paid:		
MVS investment for 21% equity interest in FGW	$	1,275,439
Cash investment in convertible note		1,265,000
Total consideration		2,540,439
Less call option received		(450,069)
Total consideration	$	2,090,370

		FGW
	$	2,090,370
Consideration paid		
Fair value of net assets acquired:		
Cash		1,265,000
Intangible asset - license		4,042,000
Right-of-use asset		684,195
Accounts payable and accrued liabilities		(6,000)
Due to related parties		(144,000)
Lease liability		(684,195)
Non-controlling interests		(3,066,630)
Net assets acquired	$	2,090,370

Upon closing of the FGW Transaction, the Company paid an aggregate purchase price of $2,179,350 to secure its 21% equity position in FGW and obtain the FGW Note, which was based on a post-build out proforma working capital enterprise value of $4,350,000 (the "Purchase Price"). The Purchase Price was comprised of: (a) the issuance of 9,648.85 MVS valued at C$125 per MVS as consideration for 21% equity interest of FGW; and (b) the payment of $1,265,000 as consideration for the FGW Note entitling the Company to such number of underlying FGW shares equal to a 29.1% equity interest in FGW.

The conversion option embedded in the FGW Note was determined to have a fair value of $450,069 which was recorded as a component of other current assets on the Company's consolidated statements of financial position.

The following table presents the summarized financial information for FGW before intercompany eliminations as at December 31, 2020:

Current assets	$	1,251,503
Non-current assets	$	697,692
Non-current liabilities	$	1,949,195

Acquisitions during the year ended December 31, 2019

The Company completed three business acquisitions during the year ended December 31, 2019. The acquisitions of PMACC and SJW, and the RTO Transaction noted below were accounted for in accordance with IFRS 3. The acquisition of SLWS was deemed to be an asset acquisition, not a business combination.

A summary of the final accounting for the business acquisitions completed is as follows:

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

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

Acquisition of PMACC and SJW

PMACC is a California company that was incorporated on August 28, 2005. PMACC's primary activity is the cultivation and dispensing of cannabis to eligible individuals pursuant to state and local law. SJW is a California corporation that was organized on November 17, 2009. SJW began doing business in 2012 as a compliant medical cannabis dispensary in San Jose, California under the Harborside brand. PMACC and SJW were owned by the same shareholders, each shareholder owning 50% of the respective entities, and were related parties of Harborside until they were acquired by Harborside in

January 2019. Though PMACC, SJW and Harborside were related parties prior to the acquisition, the acquisition was not a common control transaction and the IFRS 3 scope exception therefore does not apply.

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

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

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

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

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

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

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

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

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

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

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

The Company's consolidated statements of loss and comprehensive loss for the year ended December 31, 2019 includes net revenue of $47,169,501 and net loss of $9,194,764 of PMACC and SJW since the January 7, 2019 acquisition date.

<u>RTO Transaction</u>

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

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

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

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

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

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

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

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

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

As at December 31, 2020, the Company had not completed either of the acquisitions. The time limit of 180 days since the RTO Transaction for the automatic redemption clause lapsed as of November 26, 2019. As the time period of 180 days had lapsed, the Special Shares are considered to have been automatically redeemed and cancelled at a redemption price of C$0.000001 per share. Per IFRS 3, contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity. Subsequent to December 31, 2020, the Board took steps to formally redeem and cancel the Special Shares at a redemption price of C$0.000001 per share in accordance with the Company's articles (see "Subsequent Events" for details).

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

The Company's consolidated statements of loss and comprehensive loss for the year ended December 31, 2019 includes revenue of $964,920 and net loss of $5,055,333 of Lineage since the closing date of the RTO Transaction.

Acquisition of SLWS

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

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

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

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

The Company's consolidated statements of loss and comprehensive loss for the year ended December 31, 2019 includes no material revenue or operating loss of SLWS because the dispensary had only one day of operations in 2019.

Issued and Outstanding Share Capital

As at December 31, 2020, the Company had the following securities issued and outstanding (on a fully diluted basis, expressed as the number of SVS issuable upon conversion or exercise, as applicable, of such securities):

Designation of Securities	Number of Underlying SVS
Subordinate Voting Shares	26,535,608
Multiple Voting Shares	17,909,642
Series B Special Shares	275,325
Series C Special Shares	336,508
Options	6,635,898
Contingent Stock Grants	235,000
Warrants	2,806,981
Broker Warrants	472,319
Convertible Debts	58,492
Total Fully Diluted Share Capital	**55,265,773**

As at April 24, 2021, the Company had the following securities issued and outstanding (on a fully diluted basis, expressed as the number of SVS issuable upon conversion or exercise, as applicable, of such securities):

Designation of Securities	Number of Underlying SVS
Subordinate Voting Shares	34,511,058
Multiple Voting Shares	24,328,842
Options	5,707,148
Contingent Stock Grants	75,000
Warrants	16,572,881
Broker Warrants	2,020,627
Convertible Debts	58,492
Total Fully Diluted Share Capital	**83,274,048**

Provisions

IRC Section 280E

Certain subsidiaries of the Company operate in the cannabis industry and are subject to IRC Section 280E, which prohibits businesses engaged in the trafficking of controlled substances (including cannabis as specified in Schedule I of the FCSA) from deducting 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 provides guidance that adds to the requirements in IAS 12 – *Income Taxes* ("IAS 12") by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the positions taken by the IRS and the findings of the Tax Court, the Company has determined that a reserve for an uncertain tax position should be recorded for all years subject to statutory review. Although the Company, as described below, 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 December 31, 2020, the reserve totaled $37,758,875 (December 31, 2019 –$36,500,000), a sum which includes the separate tax proceedings described below. During the year ended December 31, 2020, the Company recognized a gain in the amount of $1,435,603 from a reduction in the provision for SJW related to the 2016 tax year that passed the statute of limitations. The gain was offset by an increase to the provision for SJW based on the outcome of the Tax Court proceedings, as discussed below.

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 date of the 2020 Financial Statements.

PMACC

PMACC is currently involved in two separate tax proceedings. The first, *PMACC v. Commissioner*, is an appeal to the United States Court of Appeals for the Ninth Circuit of an adverse Tax Court decision that was issued on November 29, 2018. In that decision, the Tax Court disallowed PMACC's allocation of certain items of expense to cost of goods sold, holding that they were instead deductions barred by IRC Section 280E. At issue are PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012. The 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 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 year 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 (see "Subsequent Events").

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

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.

Subsequent to year-end, 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.

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 provides guidance that adds to the requirements in IAS 12 specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the IRS and Tax Court, determined that a reserve for an uncertain tax position should be recorded. As at December 31, 2020 and

2019, the reserve totaled $37,758,875 and $36,500,000, respectively. Subsequent to year-end, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to SJW (see "Subsequent Events" for details).
Moothery v. Patients Mutual Assistance Collective Corp dba Harborside Health et al.

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

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

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

Separation agreement

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

On December 31, 2020, the Company eliminated the role of Chairman Emeritus and terminated the employment agreement with 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.

Mediation with former employee

On October 28, 2019, the Company was contacted by an attorney representing a former employee, who has alleged being subjected to discrimination and retaliation, on the basis of both gender and having the status of a whistleblower with respect to alleged violations of Company policies reported to Company management and has demanded monetary damages in the amount of $400,000, along with specified equitable relief. On September 30, 2020, the Company and the former employee mediated the matter. With no determination on merits of the action whatsoever, in order to avoid additional cost and the uncertainty of litigation, both parties agreed to resolve any and all claims. Pursuant to the terms of the settlement agreement reached between the parties, the Company agreed to pay the former employee $106,000 to resolve all claims.

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 in the unlawful detainer action and ordered the forfeiture of the premises, damages, and attorney's fees to the landlord. On April 1, 2021, the Company filed a request for temporary stay of eviction. The request for a stay was granted and the parties have mutually agreed to stay the eviction until May 15, 2021 while they negotiate a possible extension of the lease. The Company intends to appeal the verdict if negotiations are unsuccessful. Arbitration on SLWS' breach claim against the landlord is in the briefing stage with a final determination on the merits of the claims not expected until the third quarter of 2021. The Company continues to negotiate with the landlord on an extension of the current lease while seeking to relocate its retail operations within the City of San Leandro.

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; and
3. Within the next 90 days, plaintiff may take discovery on the issue of whether an ATDS was used to call Plaintiff. However, the court expressly ruled that the parties may not engage in any expert discovery on the ATDS issue.

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 Company presently awaits the court's setting of another Case Management Conference. A trial date remains to be set, and the case remains in discovery phase.

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

On or about January 10, 2020, PMACC was served with a complaint filed by plaintiff and putative class representative Mr. Michael Adams. The complaint, filed on January 7, 2020 in Superior Court of the State of California for Alameda County, alleges violations of California Business and Professions Code §17200 with respect to PMACC's employee wage payment practices, and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Mr. Adams. The Company believes that the complaint fails to state any claim upon which relief can be granted, and that it has meritorious defenses to the alleged causes of action. The Company further believes that Mr. Adams' allegations fail to adequately represent the claims of any alleged class of similarly situated plaintiffs. In late April 2020, the Company filed a demurrer/motion to strike as to plaintiff's complaint; the Court granted the Company's demurrer/motion to strike in part, with leave for the plaintiffs to amend and refile their original complaint. On or about October 6, 2020, plaintiff and the Company agreed to mediation of the case, with mediation scheduled for May 4, 2021.

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. Subsequent to December 31, 2020, the Company announced that the compliant was voluntarily dismissed by plaintiff in its entirety without prejudice (see "Subsequent Events" for details).

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 by defending itself against such legal claims as necessary. As the Company's growth continues, it may become party to an increasing number of litigations matters and claims. The outcome 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.

Off-Balance Sheet Arrangements

As at December 31, 2020 and the date of this MD&A, the Company does not have any off-balance sheet arrangements.

Subsequent Events

Shahrohkimanesh v. Harborside, Inc. et al.

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.

Hiatt Creek Properties et al. v. AUPA, LLC et al.

In early February 2021, and after informal settlement discussions with plaintiff, the Company was formally served with a lawsuit filed in the Superior Court of California for the County of Mendocino. The lawsuit generally alleges that plaintiff did not receive payment for a number of products and services provided by plaintiff to the defendants. The Company believes that the complaint fails to state any claim upon which relief can be granted, that it has meritorious defenses to the alleged causes of action, and that in any event, the amount alleged to be at issue is non-material to the Company's financial or operational results. The case is presently in its early stages of pre-trial motion practice.

Resolution of San Jose Wellness 280E case

On February 17, 2021, the United States Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to Docket Nos. 12313-15, 12353-15, and 15714-18 (the "Cases") to disallow all of SJW's deductions pursuant to IRC Section 280E for all the years at issue. 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.

Private Placement of Equity Units

On February 18, 2021, the Company closed its upsized Offering of Units at a price of C$2.55 per SVS Unit and C$255 per MVS Unit for aggregate gross proceeds of C$35,103,045. Beacon Securities Limited and ATB Capital Markets acted as co-lead agents in connection with the Offering (the "Agents").

Each unit issued to non-residents 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 were considered residents of the U.S were issued units (each, an "MVS Unit"), each MVS Unit comprised of one MVS of the Company and one MVS purchase warrant (each, an "MVS Warrant") based on the same economic equivalency of each MVS converting into 100 SVS. The holders of MVS 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.

In consideration for their services, the Company paid the Agents a cash commission equal to C$1,451,340.75 and issued the Agents an aggregate of 569,154 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.

As certain insiders and other related parties of the Company, including CCPII, participated in the Offering, it was 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 was exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 (pursuance 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.

Tenant Purchase Option

On February 25, 2021, the Company provided notice to CFP RE Fund I, LLC with its intent to exercise its call option to purchase the Production Campus.

Loudpack

On March 8, 2021, the Company, through one of its subsidiaries, purchased $5 million of Debentures of 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 Debenture. 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 million 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 million and whose shares have a 60 day trailing average daily trading value of not less than $6 million, 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 $212.5 million prior to November 30, 2021, or $200 million 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 million, 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 million 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 million.

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.

Extension to Related Party Note Receivable

On March 12, 2021, the Company extended the maturity date of the promissory note and pledge agreement with Mr. Nichols to June 30, 2021.

Series B Special Shares and C Special Shares

On February 26, 2021, the outstanding Special Shares were formally redeemed for cancellation at a redemption price of $0.000001 per share in accordance with the Company's articles of amendment dated December 1, 2020. No compensation was paid to any holder pursuant to the articles of the Company, which provide that no payment shall be made and no compensation shall be provided for any payment to a holder that is less than $1.00.

Revolving Credit Facility

On March 19, 2021, the Company entered into the Credit Facility with a commercial federally regulated bank (the "Bank") for $12,000,000. The Credit Facility is due 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. As consideration for the Credit Facility, the Company has agreed to, among other things: (i) deliver a commercial security agreement, an assignment of deposit account, and a security agreement in respect of cash collateral to the Bank; (ii) make an upfront cash payment based on the principal amount of the Facility to the Bank as an original issue discount; and (iii) issue 4,100 warrants to the Bank to purchase 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 will entitle the Bank to one MVS of the Company at a price of C$369, at any time prior to March 19, 2023.

SLWS

On March 30, 2021, following a trial on an unlawful detainer action brought against SLWS, the court ruled against SLWS and ordered that:

1. The landlord is immediately entitled to restitution and possession of the premises;
2. The lease for SLWS premises is forfeited; and
3. The landlord is awarded unpaid rent and damages.

On April 1, 2021, the Company filed a request for temporary stay of the judgment. The court granted a stay of eviction until April 28, 2021. As at April 24, 2021 the parties are negotiating an extension of the current lease to allow the Company to find a suitable alternative location that allows for adult retail sales.

San Jose Wellness v. Commissioner of Internal Revenue

On February 17, 2021, the United States Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to Docket Nos. 12313-15,12353-15, and 15714-18 (the "Cases") to disallow all of SJW's deductions pursuant to IRC Section 280E for all the years at issue. The Company has 90 days in which to file an appeal.

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 "Provisions"). 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.

Risk Factors

The Company faces exposure to risk factors and uncertainties relating to its business that could significantly negatively impact the Company's operations and financial results. The Staff Notice provides specific disclosure expectations for issuers that currently face risks from their cannabis-related activities in the U.S., and these risks are clearly and prominently disclosed on this document, under the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets". Additional risks and uncertainties not presently known to the Company or currently deemed immaterial by the Company may also impair the Company's operations. If any such risks actually occur, shareholders of the Company could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Company could also be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected. Significant business risk factors related to the business of the Company are described below and in the Company's Listing Statement dated May 30, 2019, under the heading "Risk Factors" and in the Company's other public filings, all of which are available under the Company's SEDAR profile at www.sedar.com.

The following is a summary of certain risk factors that could be applicable to the business of the Company. Certain risk factors arising as a result of the Schedule I status of cannabis under the FCSA are discussed in greater detail under the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets":

U.S. Federal Laws pertaining to cannabis

Cannabis is illegal under U.S. federal laws and enforcement of relevant laws is a significant risk. Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions, or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, asset forfeiture, cessation of business activities or divestiture. This could have a material adverse effect on the operations and financial position of the Company, including (but not limited to) its ability to conduct business, material loss of profitability or liquidity, or material reduction in the market price of the Company's publicly-traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation or adjudication of any such matters, as the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

The business operations of the Company are dependent on state laws pertaining to the cannabis industry. These state laws are in conflict with the FCSA, which makes marijuana use and possession illegal on a national level. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. The Obama administration made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those abiding by state-designated laws allowing the use and distribution of medical marijuana. There is no guarantee that the Biden Presidential administration will maintain the government's stated policy regarding the low-priority enforcement of federal laws, and may decide to enforce the federal laws to the fullest extent possible. Please refer to the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets".

Continued development of the cannabis industry is dependent upon continued legislative authorization of cannabis at the state level. Any number of factors could slow or halt progress in this area. Further progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of cannabis, which would negatively impact the business of the Company.

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

Risk of civil asset forfeiture

Because the cannabis industry remains illegal under U.S. federal law, any property owned or leased by the Company, which are either used in the course of conducting business, or were purchased using the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture proceedings. Such potential proceedings could involve significant deprivations of property being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favor of the Company. Please refer to the section titled "Mandated Disclosure for from Canadian Companies with U.S. Marijuana-Related Assets".

Anti-money laundering laws and regulations

The Company is subject to a variety of laws and regulations domestically and in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime. Please refer to the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets".

In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the U.S. were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while there are no current intentions to declare or pay dividends on the SVS in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the U.S.) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Enforcement of cannabis laws could change

The Cole Memo was rescinded by former Attorney General Jeff Sessions. As such, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. Please refer to the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets".

There can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could also have an adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation and prospects, even if such proceedings were concluded successfully in favor of the Company. In the extreme case, such proceedings could ultimately involve the prosecution of key executives of the Company or the seizure of its corporate assets.

Local, state, and federal laws in the U.S.

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

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

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

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

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

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

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

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

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

Businesses involved in the cannabis industry often have difficulty accessing the U.S. banking system and traditional financing sources. This lack of access may make it difficult for the Company to maintain cash holdings and liquidity, and there can be no assurance that this will not result in a material adverse effect on the Company's finances, operations, or liquidity. Please refer to the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets".

The 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 dealing with banking restrictions directly relating to its business, banking restrictions could nevertheless be imposed due to the Company's banking institutions not accepting payments from Licensed Operators. Licensed Operators at times do not have deposit services and are at risk that any bank accounts they have could be closed at any time. Such risks increase costs to the Company and Licensed Operators. Please refer to the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets". Additionally, similar risks are associated with large amounts of cash at cannabis businesses. These businesses require enhanced security with respect to holding and transport of cash, whether or not they have bank accounts.

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

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

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

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

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

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

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

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

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

Lack of access to U.S. Bankruptcy Protections

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

Loss of Foreign Private Issuer Status

The Company is a Foreign Private Issuer as defined in Rule 405 under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") and Rule 3b-4 under the United States Exchange Act of 1934, as amended (the "U.S. Exchange Act"). If, as of the last business day of the Company's second fiscal quarter for any year, more than 50% of the Company's outstanding voting securities (as determined under Rule 405 of the U.S. Securities Act) are directly or indirectly held of record by residents of the U.S., the Company will no longer meet the definition of a Foreign Private Issuer, which may have adverse consequences on the Company's ability to raise capital in private placements or Canadian prospectus offerings. In addition, the loss of the Company's Foreign Private Issuer status may likely result in increased reporting requirements and increased audit, legal and administration costs. These increased costs may significantly affect the Company's business, financial condition and results of operations.

The term "Foreign Private Issuer" is defined as any non-U.S. corporation, other than a foreign government, except any issuer meeting the following conditions:

(a) more than 50% of the outstanding voting securities of such issuer are, directly or indirectly, held of record by residents of the U.S.; and
(b) any one of the following:
    (i) the majority of the executive officers or directors are U.S. citizens or residents, or

(ii) more than 50% of the assets of the issuer are located in the U.S., or
(iii) the business of the issuer is administered principally in the U.S.

A "holder of record" is defined by Rule 12g5-1 under the U.S. Exchange Act. Generally speaking, the holder identified on the record of security holders is considered as the record holder. In December 2016, the U.S. Securities and Exchange Commission (the "SEC") issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with this threshold, examine either (i) the combined voting power of its share classes, or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, each issued and outstanding MVS is counted as one voting security and each issued and outstanding SVS is counted as one voting security for the purposes of determining the 50% U.S. resident threshold and the Company is a "Foreign Private Issuer." Should the SEC's guidance and interpretation change, it is likely the Company will lose its Foreign Private Issuer status.

Heightened scrutiny by Canadian regulatory authorities

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

In 2017, there were concerns that the Canadian Depository for Securities Limited, through its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), Canada's central securities depository, would refuse to settle trades for cannabis issuers that have investments in the U.S. However, The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S., and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

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

U.S. border crossing

Foreign investors in the Company and the Company's non-U.S. citizen directors, officers and employees may be subject to travel and entry bans into the U.S. by the CBP. Please refer to the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets". If any of the Company's directors, officers or other service providers from Canada are denied entry into the U.S., such action may have a material adverse effect on the Company's operations and finances.

Travel restrictions associated with COVID-19

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

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

There are risks associated with the removal of U.S. Federal Budget Rider Protections

The Budget Rider Protections passed by Congress currently prevent the federal government from prosecuting individuals when those individuals comply with applicable state cannabis laws. However, because this conduct continues to violate U.S. federal law, U.S. courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with applicable state law – could be prosecuted for violations of U.S. federal law. If the U.S. federal government restores funding, the U.S. federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the FCSA's five-year statute of limitations. There can be no assurance that the U.S. federal government will not restore such funding, and the restoration of such funding may have material adverse materials effects on the Company's operations and finances. Should the Budget Rider Protections not be renewed upon expiration in subsequent spending bills, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with state law. Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favor of the Company. Please refer to the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets".

Additional financing

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

Volatile financial and economic conditions

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

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

Unfavorable tax treatment of cannabis businesses

As discussed earlier in this document, Section 280E of the U.S. Tax Code has a significant impact on the Company's retail sale of cannabis. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its U.S. income tax expenses. Please refer to the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets".

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

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

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

On February 17, 2021, the United States Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to Docket Nos. 12313-15,12353-15, and 15714-18 (the "Cases") to disallow all of SJW's deductions pursuant to Section 280E for all the years at issue. The Company has 90 days in which to file an appeal.

U.S. tax classification

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

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

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

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

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

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

Because the SVS will be treated as shares of a U.S. domestic corporation, the U.S. gift, estate, and generation-skipping transfer tax rules generally apply to a non-U.S. shareholder of SVS.
Shareholders should seek tax advice, based on such shareholders' particular circumstances, from an independent tax advisor.

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

Purchases by the Company's customers of its products is sensitive to increased sales taxes and economic conditions affecting customer disposable income. Discretionary consumer purchases, such as of vaporization products and consumption accessories, may decline during recessionary periods or at other times when disposable income is lower and taxes may be higher. Presently, the sale of vaporization products and certain other consumption accessories is, in certain jurisdictions, subject to federal, state, and local excise taxes like the sale of conventional cigarettes or other tobacco products, all of which generally have high tax rates and have faced significant increases in the amount of taxes collected on their sales. Other jurisdictions are contemplating similar legislation and other restrictions on electronic cigarettes and certain other vaporizer products. Should federal, state, and local governments and/or other taxing authorities begin or continue to impose excise taxes similar to those levied against conventional cigarettes and tobacco products on vaporization products or consumption accessories, it may have a material adverse effect on the demand for those products, as consumers may be unwilling to pay the increased costs, which in turn could have a material adverse effect on the Company's business, results of operations and financial condition. The Company may become involved in regulatory or agency proceedings, investigations, and audits. Its business, and the business of the suppliers from which it acquires the products it sells, requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject the Company or its suppliers to regulatory or agency proceedings or investigations and could also lead to damage awards, fines, and penalties. The Company or its suppliers may become involved in a number of government or agency proceedings, investigations, and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation or the reputations of the brands that it sells, require it to take, or refrain from taking, actions that could harm its operations or require it to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition, and results of operations.

Limited market for securities

The Company was subject to the CTO, which halted all trading in the Company's SVS, until the Company filed: (i) the Outstanding Annual Filings; and (ii) the Q1 2020 Filings. On August 10, 2020, the Company filed the Outstanding Annual Filings, and on August 25, 2020, the Company filed the Q1 2020 Filings. The Company applied to the OSC to have the CTO revoked. On September 2, 2020, trading resumed on the CSE.

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

Concentrated voting control

The concentrated control through the MVS could delay, defer, or prevent a change of control of the Company, an arrangement involving the Company or a sale of all of substantially all of the Company's assets that the Company's other shareholders support. Conversely, this concentrated control could allow the holders of the MVS to consummate such a transaction that the Company's other shareholders do not support. In addition, the holders of MVS may make long-term strategic investment decisions and take risks that may not be successful and may seriously harm the Company's business.

Sales of substantial amounts of SVS may have an adverse effect on their market price

Sales of a substantial number of SVS in the public market could occur at any time either by existing holders of SVS or by holders of the MVS that are convertible into SVS. These sales, or the market perception that the holders of a large number of SVS or MVS intend to sell SVS, could reduce the market price of the SVS. If this occurs and continues, it could impair the Company's ability to raise additional capital through the sale of securities.

Restriction on the ability to convert Multiple Voting Shares

The rights of holders of MVS to convert such shares into SVS will be subject to the a protective restriction in order to maintain the status of the Company as a "foreign private issuer" under U.S. securities laws. As a result, holders of MVS may not be able to convert such shares into SVS. The Company could lose its status as a "foreign private issuer" if all or a portion of the MVS directly or indirectly held of record by U.S. Residents are converted into SVS. Holders of MVS shall not have the right to convert any portion of the MVS to the extent that after giving effect to all permitted issuances after such conversions of MVS, the aggregate number of SVS and MVS held of record, directly or indirectly, by residents of the U.S. Residents would exceed a 40% threshold. The Board of Directors of the Company by resolution authorized the increase of the 40% threshold to a 49% threshold. The MVS will not be listed for trading in any market and, as such, holders of MVS will not be able to trade their shares without conversion.

Limited trademark protections

As discussed earlier in this document, the U.S. Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the U.S. states in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks, and growth of the Company's business into other states may be adversely impacted by the Company's inability to pursue U.S. federal trademark registration. Please refer to the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets".

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

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

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

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

Enforcement of other intellectual property rights

The Company may be unable to adequately protect or enforce its intellectual property rights. Its continuing success will likely depend, in part, on its ability to protect internally developed or acquired intellectual property, and to maintain the proprietary nature of its technology through a combination of licenses and other intellectual property arrangements, without infringing the proprietary rights of third parties. There can be no assurance that the intellectual property owned by the Company will be held legally valid at the state or federal level if challenged, or that other parties will not claim rights in or ownership of its intellectual property. Please refer to the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets".

Infringement or misappropriation claims

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

Potential FDA regulation

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

Unfavorable publicity or consumer perception

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

Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that is perceived as less favorable, or that questions earlier research reports, findings or other publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have such a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or the Company's products specifically, or associating the consumption of cannabis with illness, criminality, or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

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

Securities class action litigation risks

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

Risks associated with increased competition

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

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

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

The success of new and existing products and services is uncertain

The Company expects to commit significant resources and capital to develop and market existing and new products, services, and enhancements. The Company cannot provide any assurance that it will achieve market acceptance for these products and services, or other new products and services that it may offer in the future. Moreover, these and other new products and services may face significant competition with new and existing competitors. In addition, new products, services, and enhancements may pose a variety of technical challenges and require the Company to attract additional qualified employees, and to expend material sums of funds for new product development. The failure to successfully develop and market these new products, services or enhancements could seriously harm the Company's business, financial condition, and results of operations. Moreover, if the Company fails to accurately project demand for new or existing products, it may encounter problems of overproduction or underproduction which would materially and adversely affect its business, financial condition, and results of operations, as well as damage its reputation and brands.

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

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

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

Factors which may prevent realization of growth targets

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

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases or unforeseen variances in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;

- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes, or storms.

Constraints on marketing products

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

Risks inherent in an agricultural business

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

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

Environmental regulation and risk

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

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

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

Reliance on management

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

Reliance on third-party service providers

Third party service providers to the Company may withdraw or suspend their service to the Company under threat of criminal prosecution. Please refer to the section titled "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets". Any suspension of service and inability to procure goods or services from an alternative source, even on a temporary basis, that causes interruptions in the Company's operations could have a material and adverse effect on the Company's business.

Insurance and uninsured risks

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

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

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

Dependence on suppliers and skilled labor

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

Retention and acquisition of skilled personnel

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

Management of growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Internal controls

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

Product liability

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

Product recalls

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

Product safety and vaping risk

On October 4, 2019, the FDA issued a warning to the public to stop using vaping liquids containing cannabis derivatives and ingredients, such as CBD and THC, in light of a potential but unconfirmed link to lung injuries. Such warnings appear to be particularly focused on the use of vaping liquids purchased from unlicensed or unregulated retailers. There may be governmental and private sector actions aimed at reducing the sale of cannabis containing vaping liquids and/or seeking to hold manufacturers of cannabis-containing vaping liquids responsible for the adverse health effects associated with the use of these vaping products. These actions, combined with potential deterioration in the public's perception of cannabis-containing vaping liquids, may result in a material reduction in consumer demand for vaporizer products. Regulations or actions that prohibit or restrict the sale of vaporizer products including cannabis derivative vaping liquids, or that decrease consumer demand for the Company's products by prohibiting their use, raising the minimum age for their purchase, raising the purchase prices to unattractive levels via taxation, or banning their sale, could adversely impact the financial condition and results of operations of the Company.

Public health crises

The Company's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises beyond our control, including the current outbreak of COVID-19. In December 2019, COVID-19 was reported to have surfaced in Wuhan, China. On January 30, 2020, the WHO declared the COVID-19 outbreak a global health emergency and on March 11, 2020, the WHO expanded its classification of COVID-19 to a global pandemic. Many governments have likewise declared that the COVID-19 outbreak in their jurisdictions constitutes an emergency and have ordered all but certain essential businesses closed and imposed significant limitations on the circulation of the populace. Furthermore, certain illnesses may be transmitted through human or surface contact, and the risk of contracting such illnesses could cause employees and customers to avoid gathering in public places, as has been the case in many places since February 2020 due to concerns about the coronavirus. Reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, business closures, quarantines, and a general reduction in consumer activity. The rapid development of the COVID-19 pandemic and the measures being taken by governments and private parties to respond to it are extremely fluid. While the Company has continuously sought to assess the potential impact of the pandemic on its financial and operating results, any assessment is subject to extreme uncertainty as to probably, severity and duration of the pandemic as reflected by infection rates at local, state and regional levels. The Company has attempted to assess the impact of the pandemic by identifying risks in the following principle areas:

- <u>Mandatory Closure</u>: In response to the pandemic, many states and local jurisdictions implemented mandatory closure of, or limitations to, business to prevent the spread 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. Since Governors in the states of Oregon and California have deemed cannabis to be an "essential" service, access to cannabis products from Harborside and other cannabis operators throughout both states has been protected. Harborside's retail store locations and production facilities remain fully operational. However, the Company's ability to generate revenue would be materially impacted by any future shut down of its operations.
- <u>Customer Impact</u>: While the Company has not experienced an overall downturn in demand for its products in connection with the pandemic, if its customers become ill with COVID-19, are forced to quarantine, decide to self-quarantine or not to visit its stores or distribution points to observe "social distancing", it may have material negative impact on demand for its products while the pandemic continues. While the Company has implemented measures, where permitted, such as curbside pick-up and/or drive-thru options to reduce infection risk to our customers, regulators may not permit such measures, or such measures may not prevent a reduction in demand.
- <u>Supply Chain Disruption</u>: The Company relies on third party suppliers for equipment and services to produce its products and keep its operations going. If its suppliers are unable to continue operating due to mandatory closures or other effects of the pandemic, it may negatively impact its own ability to continue operating. At this time, the Company has not experienced any failure to secure critical supplies or services. However, disruptions in our supply chain may affect our ability to continue certain aspects of the Company's operations or may significantly increase the cost of operating its business and significantly reduce its margins**.**
- <u>Staffing Disruption</u>: The Company is, for the time being, implementing among its staff where feasible "social distancing" measures recommended by such bodies as the Center of Disease Control, the Presidential

Administration, as well as state and local governments. The Company has cancelled nonessential travel by employees, implemented remote meetings where possible, and permitted all staff who can work remotely to do so. For those whose duties require them to work on-site, measures have been implemented to reduce infection risk, such as reducing contact with customers, mandating additional cleaning of workspaces and hand disinfection, providing masks and gloves to certain personnel and contact tracing following reports of employee infection. Nevertheless, despite such measures, the Company may find it difficult to ensure that its operations remain staffed due to employees falling ill with COVID-19, becoming subject to quarantine, or deciding not to come to come to work on their own volition to avoid infection. At certain locations, the Company has experienced increased absenteeism due to the pandemic. If such absenteeism increases, the Company may not be able, including through replacement and temporary staff, to continue to operate at desired levels in some or all locations.

- Regulatory Backlog: Regulatory authorities, including those that oversee the cannabis industry on the state level, are heavily occupied with their response to the pandemic. These regulators as well as other executive and legislative bodies in the states in which we operate may not be able to provide the level of support and attention to day-to-day regulatory functions as well as to needed regulatory development and reform that they would otherwise have provided. Such regulatory backlog may materially hinder the development of the Company's business by delaying such activities as product launches, facility openings and approval of business acquisitions, thus materially impeding development of its business.
- Limited Availability of Vaccine: On December 11, 2020, the FDA issued an emergency use authorization ("EUA") for the Pfizer BioN-Tech COVID-19 vaccine, the first such approval. Additional EUAs were issued on December 18, 2020 for a vaccine created by Moderna, and on February 27, 2021 for a vaccine created by Janssen Biotech (a Johnson & Johnson affiliate). As of March 2, 2021, approximately 78 million doses of the various vaccines have been administered in the U.S., although both the Pfizer and Moderna vaccines require the administration of two doses for full effectiveness. On March 2, 2021, President Biden stated that the U.S. will have sufficient vaccine supply for all adults by the end of May 2021. Actual delivery of the vaccines to individuals, however, is controlled by state and local governments using various prioritization criteria and states continue to impose activity limitations and other precautions on businesses during this period until the vaccine is widely disseminated. In addition, there can be no assurance of when the Company's employees in any particular jurisdiction will be able to access the vaccine. Moreover, there can be no assurance that all employees will choose to avail themselves of the vaccine or, if so, when they will choose to do so. The same applies to the Company's patients, customers, regulators, and suppliers. Consequently, the COVID-19 risk factors described above continue to be applicable. The Company is actively addressing the risk to business continuity represented by each of the above factors through the implementation of a broad range of measures throughout its structure and is re-assessing its response to the COVID-19 pandemic on an ongoing basis. The above risks individually or collectively may have a material impact on the Company's ability to generate revenue. Implementing measures to remediate the risks identified above may materially increase our costs of doing business, reduce our margins and potentially result in losses. While the Company has not to date experienced any overall material negative impact on its operations or financial results related to the impact of the pandemic, so long as the pandemic and measures taken in response to the pandemic are not abated, substantial risk of such impact remains, which could negatively impact the Company's ability to generate revenue and/or profits, raise capital and complete its development plans.

Liability for activity of employees, contractors, and consultants

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

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

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

Reliance on joint venture partners

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

Reliance on information technology and vulnerability to cyber-attacks

The Company is reliant on information technology systems and may be subject to damaging cyber-attacks. Every business is subject to cyber-attacks; however, cannabis businesses are particularly vulnerable given the relatively small size of the market for cannabis-specific information technology providers. As such, cannabis-specific information technology may be less able to thwart attempted breaches and misuses of information technology systems. A breach of the Company's computers or network systems could give rise to liabilities that result in material adverse effects to the financial or operating condition of the Company.

Data breaches and privacy law

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

Information technology systems and cyber attacks

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

Ability to obtain and retain licenses and permits

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

Illegal drug dealers could pose threats

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

Competition from synthetic production and technological advances

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

Results of future clinical research

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

Difficult to forecast demand

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

Disruption of business

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

Risks related to wildfires

In 2020, certain regions of the West Coast of the U.S. including areas of California, Oregon and Washington state were negatively impacted by wildfires, which cause smoke and ash to block out essential sunlight from outdoor cannabis crops. The wildfires have the potential to materially disrupt the Company's and other industry participant's supply chains, operations, ability to harvest outdoor cannabis crops and could significantly diminish both the size and quality of the crops harvested. The extent to which such wildfires or any other natural disaster impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of this or any other natural disaster and the actions to contain such natural disaster or treat its impact, among others. The historical pattern of supplies increasing in the months of September through December did not occur in 2020 due to wildfires in northern California, which affected the harvests from outdoor growers and constricted overall supply.

Disclosure of Internal Controls over Financial Reporting

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

Management's Responsibility for Financial Information

Management is responsible for all information contained in this MD&A. The Company's consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the 2020 Financial Statements in all material aspects.

The Audit Committee has reviewed the 2020 Financial Statements and this MD&A with management of the Company. The Board of Harborside has approved the 2020 Financial Statements and this MD&A on the recommendation of the Audit Committee.

Approval

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

Additional Information

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

April 26, 2021

Peter Bilodeau
Interim CEO