



**HARBORSIDE INC.**

**Management's Discussion and Analysis  
of Financial Condition and Results of Operations**  
For the Three Months Ended March 31, 2021

May 31, 2021

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Harborside Inc. ("Harborside" or the "Company") is for the three months ended March 31, 2021 ("Q1 2021"). It is supplemental to, and should be read in conjunction with, the unaudited condensed interim consolidated financial statements of Harborside for the three months ended March 31, 2021 and 2020 (the "Q1 2021 Financial Statements"). The Q1 2021 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 May 31, 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. All data presented below for the three months ended March 31, 2021 is unaudited.

This MD&A has been prepared with reference to the MD&A disclosure 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".

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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 continued 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 Q1 2021 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.

### Additional Information

Additional information relating to Harborside can be found on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com), or its website at [www.investharborside.com](http://www.investharborside.com).

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### Overview of the Company

Harborside, through its affiliated entities, is licensed to cultivate, manufacture, distribute and sell wholesale and retail cannabis and cannabis products for the adult-use and medical markets. The Company operates in and/or has ownership interests in California and Oregon, pursuant to state and local laws and regulations, and 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 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 one dispensary in Eugene, Oregon under the Terpene Station brand (the "Terpene Station Dispensary"). The dispensary located in Desert Hot Springs ("Harborside Desert Hot Springs") includes the only drive-thru cannabis dispensary in southern California and is operated under a management services agreement ("MSA") with Accucanna, LLC ("Accucanna"), an entity that the Company does not control. In 2006, Harborside's dispensary located in Oakland, California received one of the first six commercial cannabis licenses issued in the U.S., and today that location is one of the highest grossing retail cannabis locations in the world. On December 18, 2020, the Company acquired (the "FGW Acquisition") a 21% ownership interest in FGW Haight, Inc. ("FGW"), a company that has the conditional use approval necessary to operate a retail cannabis dispensary in the Haight Ashbury area of San Francisco.

### Cultivation and Wholesale

Harborside operates a cultivation/production facility in Salinas, California (the "Production Campus"), 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 February 8, 2019, the Company and FLRish, Inc ("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").

Prior to the Merger Agreement, FLRish gained control of Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness Solutions Corp. ("SJW") pursuant to a series of agreements (the "Merger Option Agreements") that had been previously entered into between FLRish, PMACC and SJW. The Merger Option Agreements provided FLRish with the right to purchase 100% of the equity interests of PMACC and SJW (the "Merger Options"). 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. PMACC operates the retail dispensary in Oakland as well as the Production Campus in Salinas, California. SJW operates the retail dispensary in San Jose, California.

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 41.818 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%

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

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 Q1 2021 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	Percentage
			Owned (%)	Owned (%)
			March 31,	December 31,
			2021	2020
Harborside Inc.	Ontario, Canada	Parent	100	100
Unite Capital Corp.	Ontario, Canada	Holding Company	100	100
LGC Holdings USA, Inc.	Nevada, U.S.	Holding Company	100	100
LGC Real Estate Holdings, LLC	Nevada, U.S.	Holding Company	100	100
LGC Real Estate (Colorado), LLC	Nevada, U.S.	Holding Company	100	100
LGC Operations, LLC	Nevada, U.S.	Holding Company	100	100
Lineage GCL Oregon Corporation	Oregon, U.S.	Holding Company	100	100
LGC LOR DIS 1, LLC	Oregon, U.S.	Operating Company	100	100
LGC LOR DIS 2, LLC	Oregon, U.S.	Operating Company	100	100
Lineage GCL California, LLC	California, U.S.	Holding Company	100	100
FLRish, Inc.	California, U.S.	Management Company	100	100
FLRish IP, LLC	California, U.S.	Holding Company	100	100
FLRish Retail, LLC	California, U.S.	Holding Company	100	100
FLRish Retail JV, LLC	California, U.S.	Holding Company	100	100
FLRish Retail Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish Farms Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish Retail Affiliates, LLC	California, U.S.	Holding Company	100	100
FLRish Flagship Enterprises, Inc.	California, U.S.	Holding Company	100	100
Savature Inc.	California, U.S.	Operating Company	100	100
SaVaCa, LLC	California, U.S.	Holding Company	100	100
FFC1, LLC	California, U.S.	Holding Company	100	100
FLRish Farms Cultivation 2, LLC	California, U.S.	Operating Company	100	100
FLRish Farms Cultivation 7, LLC	California, U.S.	Holding Company	100	100
Patients Mutual Assistance Collective Corporation	California, U.S.	Operating Company	100	100
San Jose Wellness Solutions Corp.	California, U.S.	Operating Company	100	100
San Leandro Wellness Solutions Inc.	California, U.S.	Operating Company	100	100
Haight Acquisition Corporation	Delaware, U.S.	Holding Company	100	100
FGW Haight Inc.	California, U.S.	Operating Company	21	21
Encinal Productions RE, LLC	California, U.S.	Operating Company	100	-

### Outlook and Growth Strategy<sup>1</sup>

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.

<sup>1</sup> 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".

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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 in the Haight Ashbury area of San Francisco, that is expected to open in the fourth quarter of 2021.

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, a customizable automated LED lighting system, radiant heated floors, computerized environmental controls and automated fertigation systems. All cannabis flower grown at the Production Campus is cultivated using sustainable practices and the facility adheres to California's rigorous horticulture and harvesting standards.

Besides the greenhouses, there are separate buildings at the Production Campus 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 while decreasing the average cost of production. The project is currently expected to be completed within the second quarter of 2021.

The Company also announced that its in-house brand, Harborside Farms, commenced 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 upcoming 12-month period are as follows:

- expand its retail footprint throughout California;
- continue to increase the sell-through of in-house brands at Harborside branded retail stores;
- improve its cannabis production efficiencies and yields;
- streamline its 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 the goal 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 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 Terpene Station Dispensary as of the date of this MD&A. Further, the Company has not established a definitive timeline to complete such

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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 Terpene Station Dispensary. 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 as part of its plan to obtain a long-term lease in a location that will provide better visibility to customers while lowering operating costs. The Company has secured 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. 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 based on several primary market assumptions and expectations, including:

- cannabis legalization across the U.S. will continue to contribute to the industry's growth momentum, and California will continue to represent the single largest state market;
- adult-use and medical cannabis consumption will continue to increase as branded and manufactured products become increasingly popular and cannabis use becomes more widely acceptable and prevalent;
- the 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 gradually 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### Recent Developments

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 "Related Party Transactions" below for further 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 and all of its issued and outstanding Series C special shares.

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").

On March 19, 2021, the Company entered into a \$12 million senior secured revolving credit facility with a federally regulated commercial bank (the "Credit Facility") which features an initial nominal interest rate of 5.75%. The Credit Facility requires the Company to meet certain financial ratios. The Company has received a waiver from the bank with regard to the minimum adjusted EBITDA covenant for Q1 2021.

On May 3, 2021, the Company announced that its San Leandro Wellness Solutions Inc. ("SLWS") dispensary in San Leandro, California would be transitioning from medical to adult-use retail sales as part of an agreement with the landlord of the property which provided authorization for adult-use sales and upon approval from the California Bureau of Cannabis Control (the "BCC"). The agreement with the landlord also provided a six-month lease extension, which is expected to give Harborside sufficient time to finalize the build out on a new retail dispensary location in San Leandro. On May 11, 2021, the Company received approval from the BCC to commence adult-use retail sales and began selling to adult use consumers at its SLWS dispensary.

On May 11, 2021, the Company announced the appointment of Travis Higginbotham Jr. as Vice President of Production. In this role, Mr. Higginbotham will oversee the Production Campus in Salinas, spearhead improvements in wholesale production and product distribution and help to expand access to Harborside's products throughout California. Mr. Higginbotham has a Master's Degree in horticulture, is a commercial scale cannabis cultivation specialist and has more than eight years of experience in the U.S. hemp and cannabis markets.

### Projected Revenue Guidance<sup>2</sup>

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. 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 is expected to be derived from improved retail pricing, along with continued improvements in both flower yields and distribution of wholesale products from the Company's Production Campus. 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, increased sales of company produced products at its own retail stores, and stronger cost discipline on overhead spend.

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 based on improved flower yields and additional cultivation cost improvement plans realized in 2020, and those anticipated to be realized during 2021;

---

<sup>2</sup> 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".

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 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 40%. 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.

### Selected Financial Information

#### *Selected quarterly financial results*

The following tables presenting the Company's quarterly results of operations should be read in conjunction with the Q1 2021 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 March 31, 2021 are as follows:

	Q1 2021	Q4 2020	Q3 2020	Q2 2020
	\$	\$	\$	\$
Retail revenue, net	10,036,262	10,212,430	10,681,897	10,940,143
Wholesale revenue, net	2,921,268	2,844,895	8,890,723	5,208,439
Gross revenue	12,957,530	13,057,325	19,572,620	16,148,582
Gross profit	4,588,513	6,722,582	8,615,344	7,596,476
Operating expenses	(7,799,104)	(12,162,080)	(7,829,586)	(7,119,202)
Operating (loss) income	(3,210,591)	(5,439,498)	785,758	477,274
Net loss and comprehensive loss	(2,910,749)	(5,397,824)	(2,413,987)	(1,747,743)
Net loss per share – basic and diluted	(0.06)	(0.14)	(0.06)	(0.03)

	Q1 2020	Q4 2019	Q3 2019	Q2 2019 <sup>3</sup>
	\$	\$	\$	\$
Retail revenue, net	10,181,471	9,511,222	10,393,497	10,387,178
Wholesale revenue, net	4,456,775	2,185,701	3,299,720	2,153,200
Gross revenue	14,638,246	11,696,923	13,693,217	12,540,378
Gross profit	6,659,806	3,055,900	4,888,112	4,251,768
Operating expenses	(6,182,951)	(46,608,569)	(8,464,955)	(10,818,033)
Operating income (loss)	476,855	(43,552,669)	(3,576,843)	(6,566,265)
Net loss and comprehensive loss	(2,387,136)	(44,961,961)	(1,943,496)	(6,132,742)
Net loss per share – basic and diluted	(0.05)	(1.40)	(0.05)	(0.22)

<sup>3</sup> 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### Financial Information for the Three Months ended March 31, 2021

#### *Results of operations*

During Q1 2021, Harborside generated retail revenue of \$10.0 million and wholesale revenue of \$2.9 million, for total gross revenue of \$12.9 million, as compared to retail revenue of \$10.2 million and wholesale revenue of \$4.4 million, for total gross revenue of \$14.6 million during the three months ended March 31, 2020. While retail revenue has been supported by improved in-store merchandising and a focus on selling more items that were produced in-house, it has been hampered by decreased in-store foot traffic due to COVID-19 restrictions in California. The year-over-year decrease in wholesale revenues was primarily due to a lower-than-expected flower yield from the Production Campus, which was caused by several factors, including: a delay in completing the planned greenhouse capital improvements due to a COVID related disruption in the supply chain for grow light fixtures; a weather event which damaged the roof over a portion of the flower canopy; and, a subsequent infestation of non-beneficial insects, which was addressed through implementing a more robust plan for how pests are managed. The aforementioned events affected the harvests and limited the overall supply of sellable flower during the quarter.

During Q1 2021, cost of goods sold for the retail and wholesale operations totalled \$4.5 million and \$2.1 million (2020 – \$5.0 million and \$3.7 million), respectively. Gross profit before biological asset adjustments for Q1 2021 was \$5.8 million, or a gross margin of 46.8% (2020 – \$5.0 million; gross margin before biological asset adjustments of 36.9%). During Q1 2021, the Company recorded a decrease in fair value less cost to sell (“FVLCS”) of biological asset transformation of \$0.7 million (2020 – increase in FVLCS of biological asset transformation of \$1.0 million), and a realized fair value loss on amounts included in inventories sold of \$0.5 million (2020 – realized fair value gain of \$0.6 million), for an overall gross profit of \$4.6 million and gross margin of 36.9% (2020 – gross profit of \$6.7 million and gross margin of 48.7%). Year-over-year gross margin decreased primarily due to lower flower yields and less sellable flower production from the Production Campus, the effects of which were partially offset by improved pricing and product mix at retail.

The Company does not experience significant seasonality in its revenue and other important financial performance metrics.

During Q1 2021, the Company incurred total operating expenses of \$7.8 million (2020 – \$6.2 million). The year-to-year increase in total operating expenses is primarily related to the following items:

- Increase in general and administrative expenses of \$0.2 million, to \$4.3 million as compared to \$4.1 million in the comparative period in 2020, which was primarily due to one-time costs related to the search for a new Chief Executive Officer (“CEO”); and
- Increase in professional fees of \$1.5 million, to \$3.2 million as compared to \$1.7 million in Q1 2020, which was primarily due to approximately \$1.3 million in expenses associated with warrants issued in the Offering and \$0.2 million in costs related to operational improvement consulting, whereas in the comparative period in 2020, professional fees were primarily incurred for consultancy costs in relation to the restatement of certain historical financial information in conjunction with the Fiscal 2019 audit, as well as legal expenses incurred over the course of normal operations.

The Company recorded total other income of \$1.4 million during Q1 2021, as compared to total other expense of \$1.4 million incurred in Q1 2020, primarily from a fair value gain in other current assets, derivative liabilities and preferred shares of \$2.0 million (2020 – less than \$0.1 million). The Company had also recorded lower interest expense of \$0.9 million (2020 – \$1.1 million) related to interest financing agreements related to the cultivation facility, combined with interest expense accrued on prior year tax provisions.

During Q1 2021, the Company also recorded an income tax provision of \$1.1 million (2020 – \$1.4 million) based on estimated federal income taxes payable as at period-end.

Overall, net loss and comprehensive loss for the three months ended March 31, 2021 was \$2.9 million (net loss of \$0.06 per share), as compared to a net loss and comprehensive loss of \$2.4 million (net loss of \$0.05 per share) for the comparative period in 2020.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

### Cash flows

Net cash used in operating activities during Q1 2021 was \$1.2 million, as compared to net cash provided by operating activities of \$0.9 million in Q1 2020. Cash used in operating activities in Q1 2021 is primarily the result of changes in working capital due to investments in inventory (approximately \$0.2 million), payments made to related parties as part of the FGW Acquisition (approximately \$0.1 million), changes in leases payable (approximately \$0.1 million), changes in income tax payables (approximately \$1.3 million) and deferred tax liabilities (approximately \$0.2 million).

Net cash provided by financing activities during Q1 2021 was \$27.3 million, primarily due to gross proceeds of \$27.6 million (approximately C\$35.1 million) from the Offering, which was offset by cash issuance costs of \$0.7 million. The Company also withdrew funds of \$0.6 million from the Credit Facility, of which approximately \$0.3 million was used to cover the required cash reserves for the Credit Facility, while approximately \$0.2 million was directed towards the upfront issuance costs. The Company also received proceeds of approximately \$24k from the exercise of 468,750 stock options. During Q1 2020, net cash provided by financing activities was \$7,264 received from the exercise of 145,277 stock options, which represented the sole financing activity for the comparative period.

Net cash used in investing activities during Q1 2021 was \$5.7 million, driven primarily by the \$5.0 million purchase of the Loudpack Debentures, as well as investments in property, plant and equipment of \$0.7 million related to the Company's upgrade of one of its greenhouses at the Production Campus. During Q1 2020, net cash used in investing activities was \$0.2 million, of which the majority was utilized primarily for purchases of property, plant and equipment.

### Reconciliation of Non-IFRS Measures

The following information provides reconciliations of the supplemental non-IFRS financial measures, as compared 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 the IFRS financial measures presented. Instead, they should be considered in conjunction with, the IFRS financial measures presented.

### Adjusted Gross Profit & Adjusted Gross Margin

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

	<b>Three months ended March 31, 2021</b>	Three months ended March 31, 2020
	\$	\$
<b>Net Revenue</b>	<b>12,440,915</b>	13,668,829
<b>Gross Profit</b>	<b>4,588,513</b>	6,659,806
Adjusted for:		
Net effect of change in fair value less cost to sell of biological asset transformation	<b>717,230</b>	(1,041,442)
<b>Adjusted Gross Profit</b>	<b>5,305,743</b>	5,618,364
<b>Adjusted Gross Margin</b>	<b>42.6%</b>	41.1%

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

After adjusting for the effect of change in the fair value of biological asset transformation, the Adjusted Gross Profit for the three months ended March 31, 2021 was \$5.3 million (2020 – \$5.6 million). The Adjusted Gross Margin for the three months ended March 31, 2021 was 42.6% (2020 – 41.1%).

### Adjusted EBITDA & Adjusted EBITDA Margin

“Adjusted EBITDA” is a metric used by management which is net loss adjusted for interest, provisions for income taxes, other non-cash items including depreciation and amortization, share-based compensation, non-cash provisions, the non-cash effects of accounting changes 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.

As reflected in the following table, after adjusting for interest, provisions for income taxes, other non-cash or extraordinary non-recurring items including depreciation and amortization, share-based compensation, non-cash provisions, the non-cash effects of accounting changes in biological asset adjustments and derivative liabilities, the Adjusted EBITDA for the three months ended March 31, 2021 was \$1.0 million (2020 – adjusted income of \$0.4 million). The Adjusted EBITDA Margin for the three months ended March 31, 2021 was 7.8% (2020 – adjusted EBITDA margin of 2.6%).

	Three months ended March 31, 2021	Three months ended March 31, 2020
	\$	\$
<b>Net Loss</b>	<b>(2,910,749)</b>	<b>(2,387,136)</b>
Adjusted for:		
Biological assets adjustments	<b>1,238,145</b>	(1,621,369)
Share-based compensation	<b>(1,000)</b>	105,734
Depreciation and amortization	<b>214,108</b>	290,644
Depreciation included in COGS	<b>513,132</b>	508,417
Interest expense	<b>915,562</b>	1,103,130
Fair value change in other assets, derivative liabilities and preferred shares	<b>(2,013,059)</b>	(43,972)
Foreign exchange (gain) loss	<b>45,199</b>	408,782
Non-recurring expenses	<b>1,884,306</b>	564,995
Income tax provision	<b>1,075,252</b>	1,430,827
<b>Adjusted EBITDA</b>	<b>960,896</b>	<b>360,052</b>
<b>Adjusted EBITDA Margin</b>	<b>7.7%</b>	<b>2.6%</b>

### Issued and Outstanding Share Capital

As at March 31, 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	5,519,648
Contingent Stock Grants	75,000
Warrants	16,982,881
Broker Warrants	1,610,627
Convertible Debts	58,492
<b>Total Fully Diluted Share Capital</b>	<b>83,086,548</b>

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

As at May 31, 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:

<b>Designation of Securities</b>	<b>Number of Underlying SVS</b>
Subordinate Voting Shares	34,643,470
Multiple Voting Shares	24,328,842
Options	5,387,236
Contingent Stock Grants	75,000
Warrants	14,175,900
Broker Warrants	1,449,852
Convertible Debts	58,492
<b>Total Fully Diluted Share Capital</b>	<b>80,118,792</b>

### 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 U.S. Federal Controlled Substances Act ("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 – *Uncertainty over Income Tax Treatments* ("IFRIC 23") provides guidance that adds to the requirements in IAS 12 – *Income Taxes* ("IAS 12") by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the positions taken by the Internal Revenue Service ("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.

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 settlement of, or payments resulting from the cases to be resolved within 12 months of the issuance of the Company's unaudited condensed interim consolidated financial statements.

Although the Company, as described above, is actively engaged in working towards a settlement agreement and subsequent repayment plan with the IRS, an uncertain tax position has been recorded based on the unknown outcome of the settlement discussions. As at March 31, 2021, the reserve totaled \$38.1 million (December 31, 2020 – \$37.8 million), a sum which includes the separate tax proceedings described below.

#### *PMACC*

PMACC is currently involved in two separate tax proceedings. The first, *PMACC v. Commissioner*, is an appeal to the United States Court of Appeals for the Ninth Circuit of an adverse Tax Court decision that was issued on November 29, 2018. In that decision, the Tax Court disallowed PMACC's allocation of certain items of expense to cost of goods sold, holding that they were instead deductions barred by IRC Section 280E. At issue are PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012. The Tax Court held that the expenses were ordinary and substantiated business expenses but, because PMACC's business consists of trafficking in a Schedule I controlled substance, the expenses must be disallowed. On October 21, 2019, after a review process under Rule 155, the Tax Court determined that PMACC's total liability was \$11.0 million plus accrued interest. In its ruling, the Tax Court rejected the assertion of penalties by the IRS, finding that the unsettled state of the law and the fact that PMACC acted reasonably and in good faith, meant that penalties under IRC 6661(a) would be inappropriate. Accordingly, management has not included penalties in the estimated provision at period end. In December 2019, PMACC appealed the Tax Court decision to the 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

In a second Tax Court proceeding related to deductions barred by IRC Section 280E, the IRS disallowed all deductions and issued a notice of deficiency asserting that PMACC owed \$16.0 million in additional taxes and penalties for fiscal 2016. The Company filed its initial petition in this case to the Tax Court on February 13, 2020. This matter is not expected to be heard on its merits for several years, by which time the Company expects that either the Ninth Circuit appeal mentioned above would presumably dictate the outcome of this proceeding, or the Company will have successfully negotiated to an Offer in Compromise and settlement agreement with the IRS.

### *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 \$2.1 million. The second case involves the 2014 and 2015 tax years and in the second case the IRS asserted that SJW owed an additional \$2.1 million in taxes and penalties. Both of these proceedings involve substantially the same IRC Section 280E issues as the PMACC cases.

On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to the SJW cases for SJW. The Company accrued an additional \$0.5 million related to the 2015 tax year as at December 31, 2020 based on the deficiencies assessed by the court.

The Company appealed the Tax Court decisions on May 14, 2021.

### **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, by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the IRS and the various U.S. courts, determined that a provision for an uncertain tax position should be recorded to reflect the uncertainty around the returns filed for selected tax years between 2007 and 2018 for PMACC and SJW. As at March 31, 2021 and December 31, 2020, the provision totaled \$38.1 million and \$37.8 million, respectively.

#### *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 discrimination on the basis of sex, race, and/or age; failure to prevent discrimination; retaliation for reporting harassment; hostile work environment harassment; defamation; and 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 approximately \$1.1 million 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 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### SLWS

On August 21, 2020, the Company's subsidiary, SLWS, pursuant to a prior agreement, commenced a demand for arbitration and relief against Agustin J. Lopez, Diana G. Lopez and KSJ Development LLC ("Defendants") with respect to a number of alleged violations of the terms and conditions of the property lease between SLWS and the Defendants. On September 8, 2020, the Defendants filed its response to SLWS's demand for arbitration, and also asserted a number of counterclaims against SLWS. Defendants also interposed an action for unlawful detainer in relation to its counterclaims against the Company. Arbitration of the matter was scheduled for March 29, 2021, with the parties each undertaking pre-arbitral discovery prior to arbitration. On March 30, 2021, the court ruled against SLWS and entered a judgment. On April 1, 2021, the Company filed a request for temporary stay of eviction. The request for a stay was granted and the parties mutually agreed to stay the eviction until May 15, 2021. On April 2-6, 2021, the Company entered into a settlement agreement with the landlord which included extending the lease until October 31, 2021 and the grant of landlord permission for the sale of cannabis to the adult-use market, a pre-condition to state licensing of adult use sales.

### *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 parties participated in another case management conference on May 7, 2021. At the May 7, 2021 case management conference, the Court lifted the stay on class-related discovery that the court had previously imposed on July 17, 2020. The parties continue to engage in pre-trial discovery. A trial date remains to be set.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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

On or about January 10, 2020, PMACC was served with a complaint filed by plaintiff and putative class representative Mr. Michael Adams. The complaint, filed on January 7, 2020 in Superior Court of the State of California for Alameda County, alleges violations of California Business and Professions Code §17200 with respect to PMACC's employee wage payment practices, and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Mr. Adams. The Company believes that the complaint fails to state any claim upon which relief can be granted, and that it has meritorious defenses to the alleged causes of action. The Company further believes that Mr. Adams' allegations fail to adequately represent the claims of any alleged class of similarly situated plaintiffs. In late April 2020, the Company filed a demurrer/motion to strike as to plaintiff's complaint; the Court granted the Company's demurrer/motion to strike in part, with leave for the plaintiffs to amend and refile their original complaint. On or about October 6, 2020, plaintiff and the Company agreed to mediation of the case, with mediation scheduled for May 4, 2021. At the May 4, 2021 mediation, the parties did not reach a settlement agreement, however, the parties agreed to continue discovery. As of the date of the issuance of the Q1 2021 Financial Statements, no follow-up mediation date has been set.

### *Employment agreements*

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

*Shahrohkimanesh v. Harborside, Inc. et al.*

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

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

### **Off-Balance Sheet Arrangements**

As at March 31, 2021 and the date of this MD&A, the Company does not have any off-balance sheet arrangements.

### **Working Capital and Liquidity Outlook<sup>4</sup>**

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

---

<sup>4</sup> 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".

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

As at March 31, 2021, the Company had total current assets of approximately \$39.9 million (December 31, 2020 – approximately \$19.8 million), including cash and restricted cash of approximately \$30.9 million (December 31, 2020 – approximately \$10.5 million) to settle current liabilities of approximately \$65.4 million (December 31, 2020 – approximately \$63.5 million), for a net working capital deficiency of approximately \$25.5 million (December 31, 2020 – working capital deficiency of approximately \$43.7 million).

The higher amount of current liabilities as at March 31, 2021 is primarily due to the Company's provision for an uncertain tax position related to IRC Section 280E, and the estimated federal income taxes payable as at period-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 Q1 2021 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 three months ended March 31, 2021 and 2020 was as follows:

	<b>2021</b>	2020
	\$	\$
Short-term employee benefits, including salaries and directors' fees	<b>338,897</b>	565,133
Share-based compensation – Directors and Executives	<b>140,771</b>	102,331
	<b>479,668</b>	667,464

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

As at March 31, 2021, there were no amounts owed to Steve DeAngelo, former CEO and director of FLRish and former Chairman Emeritus of the Company (December 31, 2020 – \$nil). On December 31, 2020, Mr. DeAngelo separated from the Company. As at December 31, 2020, the Company accrued estimated severance payments of \$829,162 related to the separation. These payments become due over a period of 24 months after the separation.

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

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

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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### *Related Parties*

#### Nutritional High International Inc.

Adam Szwercas, 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 three months ended March 31, 2021, the Company made purchases at arm's length market rates in the amount of \$48,522 (Q1 2020 - \$81,682) from a subsidiary of Nutritional High. As at March 31, 2021, an amount of \$66,680 (December 31, 2020 - \$169,350), was owed from Calyx and included in accounts receivable, net in the Company's unaudited condensed interim consolidated statements of financial position.

#### Flow Cannabis Co.

Kevin Albert, a director of the Company, serves as the director on the board of Flow Cannabis Co. (formally Flow Kana Inc.), a California Company that offers a wide range of California's cannabis CPG brands. During the three months ended March 31, 2021, the Company made purchases at arm's length market rates in the amount of \$833 (Q1 2020 - \$40,530). As at March 31, 2021, an amount of \$1,695 (December 31, 2020 - \$6,705) owing to Flow Cannabis Co. was included in accounts payable and accrued liabilities in the Company's unaudited condensed interim 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").

Entourage is an investor in Sublime Canna ("Sublime"). During the three months ended March 31, 2021, the Company made purchases at arm's length market rates in the amount of \$84,475 (Q1 2020 - \$nil). As at March 31, 2021, an amount of \$40,904 (December 31, 2020 - \$56,788) owing to Sublime was included in accounts payable and accrued liabilities in the Company's unaudited condensed interim consolidated statements of financial position. Additionally, during the three months ended March 31, 2021, Sublime made purchases at arm's length market rates in the amount of \$227,810 (Q1 2020 - \$nil) from the Company. As at March 31, 2021, \$103,975 (December 31, 2020 - a credit of \$39,914) was included in accounts receivable, net in the Company's unaudited condensed interim consolidated statements of financial position.

#### Branson Corporate Services Ltd.

Branson Corporate Services Ltd. ("Branson"), where Mr. Bilodeau holds a 16% ownership interest, provides finance, accounting and administrative services to the Company. During the three months March 31, 2021, the Company was charged \$42,649 (Q1 2020 - \$33,494) for services provided by Branson, which is included in professional fees in its unaudited condensed interim consolidated statements of loss and comprehensive loss. As at March 31, 2021, an amount of \$nil (December 31, 2020 - \$15,975) owing to Branson was included in accounts payable and accrued liabilities in the Company's unaudited condensed interim 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 Mr. Bilodeau, entered into a consulting agreement to provide certain investor relations services to the Company in exchange for cash compensation. During the three months ended March 31, 2021, the Company was charged \$18,000 for services provided by Black Oak, which is included in professional fees in its unaudited condensed interim consolidated statements of loss and comprehensive loss. As at March 31, 2021, there were no amounts owed to Black Oak (December 31, 2020 - \$12,602).

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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### *Related Party Participation in the Offering*

On February 18, 2021, the Company closed its Offering of units for aggregate gross proceeds of approximately C\$35.1 million. Beacon Securities Limited and ATB Capital Markets acted as co-lead agents in connection with the Offering (the "Agents").

Each unit issued to nonresidents of the U.S. (each, an "SVS Unit") was comprised of one SVS and one SVS purchase warrant (each, an "SVS Warrant"). Each SVS Warrant is exercisable to acquire one SVS of the Company for a period of 36 months following the close of the Offering at an exercise price of C\$3.69 per SVS, subject to adjustment and acceleration in certain events. A total of 5,806,700 SVS Units were issued pursuant to the Offering. All investors that are considered residents of the U.S. were issued units (each, an "MVS Unit") comprised of MVS of the Company and MVS purchase warrants (each, an "MVS Warrant"), based on the same economic equivalency of each MVS converting into 100 SVS. The holders of 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 of approximately C\$1.5 million and issued the Agents an aggregate of 569,154 broker warrants ("Broker Warrants"). Each Broker Warrant is exercisable until February 18, 2022 into one SVS Unit (each comprised of one SVS and one SVS Warrant) at an exercise price of C\$2.55 per SVS Unit. Upon exercise of a Broker Warrant, each underlying SVS Warrant will be issued and exercisable at C\$3.69 per SVS Warrant until February 18, 2024.

Certain directors, officers and insiders participated in the Offering as follows: (i) Peter Bilodeau, Interim CEO of the Company, subscribed for 58,800 SVS Units at a price of C\$2.55 per unit for a total of \$116,696 (C\$149,940); (ii) Tom DiGiovanni, CFO of the Company, subscribed for 307 MVS Units at a price of C\$255 per unit for a total of \$61,070 (C\$78,285); (iii) Peter Kampian, a director of the Company, subscribed for 39,200 SVS Units at a price of C\$2.55 per unit for a total of \$77,979 (C\$99,960); (iv) Andrew Sturner, a director of the Company, participated in the offering through Orange Island Ventures, LLC, which subscribed for 1,251 MVS Units at a price of C\$255 per MVS Unit for a total of \$248,857 (C\$319,005); James Scott, a director of the Company, participated in the Offering through Littlehorn Investments LLC, which subscribed to 1,600 MVS Units at a price of C\$255 per unit for a total of \$318,283 (C\$408,000); and (vi) Cresco Capital Partners II, LLC, an entity doing business as Entourage Effect Capital, which is controlled and directed by Matthew Hawkins and Andrew Sturner, directors of the Company, subscribed for 35,500 MVS Units at a price of C\$255 per MVS Unit for a total of approximately \$7.1 million (C\$9.1 million). Both Mr. Hawkins and Mr. Sturner are partners of Entourage Effect Capital.

As certain insiders and other related parties of the Company 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 (pursuant to subsections 5.5(a) and 5.7(a)) as the fair market value of the securities distributed to, and the consideration received from, related parties did not exceed 25% of the Company's market capitalization.

### Legal transactions

For the three months ended March 31, 2020, Aird & Berlis LLP ("Aird & Berlis"), a law firm of which Sherri Altshuler, a former director of Harborside, is a partner, billed the Company \$89,522 for legal services, an amount which is recorded as professional fees in its unaudited condensed interim consolidated statements of loss and comprehensive loss. As at December 31, 2020, an amount of \$548,654 owing to Aird & Berlis was included in accounts payable and accrued liabilities in the Company's unaudited condensed interim consolidated statements of financial position.

For the three months ended March 31, 2020, Fogler, Rubinoff LLP ("Fogler"), a law firm in which Mr. Szwera is a partner, provided a credit of \$5,101 for legal services previously provided to the Company, which was netted against professional fees in the Company's unaudited condensed interim consolidated statements of loss and comprehensive loss. As at December 31, 2020, there were no amounts owed to.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### *Other Related Party Transactions*

On February 26, 2020, the Board of the Company granted consent to FMI Capital Advisory Inc. ("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 September 1, 2020, the Company entered into a promissory note and pledge agreement with Mr. Nichols, in the amount of \$100,000. The note bears interest at a rate of 4.0% per annum. Principal and accrued interest are due at maturity on March 31, 2021. The maturity date may be extended by 90 days at the option of the Company. On March 12, 2021, the Company extended the maturity date to June 30, 2021. The balance outstanding as at March 31, 2021 and December 31, 2020 was \$102,323 and \$101,337, respectively. The note, plus all accrued interest, was repaid in full on May 25, 2021.

The Company is a party to 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 encumbers the assets of the Company to protect its directors and officers from risks arising out of their service to, and activities on behalf of, the Company and/or its subsidiaries.

### **Summary of Significant Accounting Policies**

The accounting policies applied in the preparation of the Q1 2021 Financial Statements are consistent with those applied in the Company's audited consolidated financial statements for the year ended December 31, 2020.

### *Critical accounting estimates and judgments*

The preparation of the Company's unaudited condensed interim consolidated financial statements in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the application of policies and 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 and revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are described below.

### Business combination

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

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

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or an asset acquisition can have a significant impact on the entries made at and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

Management exercises judgment in estimating the probability and timing of when contingent securities are expected to be issued which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied. Purchase consideration also includes consideration of any pre-existing relationships that are effectively settled as a result of the acquisition at their fair values.

### Fair value of biological assets and inventories

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

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

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

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

### Provision for expected credit losses ("ECL")

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

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

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

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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### 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 cash-generating unit, or "CGU", is the higher of its FVLCS 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 right-of-use asset, in a similar economic environment over a similar term.

### Leases

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

### Share-based payment arrangements

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

### Compound financial instruments

The conversion feature and the warrants component of convertible debentures and convertible notes payable, and warrants denominated and exercisable in a foreign currency, are accounted for as derivative liabilities as their fair value is affected by changes in the fair value of the Company's SVS and in response to the changes in foreign exchange rates. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The conversion feature and warrant component of the convertible debentures and convertible notes payable, and warrants denominated and exercisable in a currency in other than the Company's functional currency, are required to be measured at fair value at each reporting period.

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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### 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 March 31, 2021 and December 31, 2020 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 March 31, 2021. Management believes there is sufficient capital to meet the Company's business obligations for at least the next 12 months, after taking into account expected cash flows and the Company's cash position at period-end.

As indicated in Note 17 of the Q1 2021 Financial Statements, the Company has recognized a provision for particular uncertain tax positions which are related to the PMACC and SJW business combination. Management has considered, in consultation with outside counsel, that the final amount to be paid is uncertain and the timing of any payments arising from these proceedings or any future proceeding exceeds 12 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, the progress of the tax litigation and appeals and settlement process, and its ability for raise funds.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

The Company's unaudited condensed interim consolidated financial statements do not reflect adjustments to the reported carrying values of assets and liabilities; reported revenues and expenses; or, classifications in statements of financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations.

### *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:

#### Amendment to IAS 1 – Classification of Liabilities as Current or Non-Current

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

### **Capital Management**

The Company's objectives when managing its capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern, meet capital expenditures required for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt or acquire or dispose of assets. With the exception of certain restrictive covenants included in the Credit Facility, the Company is not subject to externally imposed capital requirements. The Board does not establish quantitative return on capital criteria for management, but rather relies on the management team's expertise to sustain future development of the business.

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 three months ended March 31, 2021 and 2020.

### **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 (the "Board"), 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

As at March 31, 2021, the Company had a cash and restricted cash balance of \$30,923,801 (December 31, 2020 – \$10,458,545) to settle current liabilities of \$65,435 (December 31, 2020 – \$63,462,681). The higher current liabilities as at March 31, 2021 and December 31, 2020 is primarily due to the Company's provision for an uncertain tax position related to IRC Section 280E.

In addition to the commitments outlined in Note 10, *Right-of-use Assets and Lease Liabilities*, and Note 24, *Commitments and Contingencies*, of the Q1 2021 Financial Statements, the Company has the following contractual obligations as at March 31, 2021:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	> 5 Years	Total
Accounts payable and accrued liabilities	\$17,751,103	\$ -	\$ -	\$ -	\$17,751,103
Convertible notes payable	484,926	-	-	-	484,926
Revolving credit facility	-	316,400	-	-	316,400
Income tax payable	8,635,498	-	-	-	8,635,498
Note payable and accrued interest	<u>681,003</u>	<u>1,861,404</u>	<u>1,997,592</u>	<u>14,971,539</u>	<u>19,511,538</u>
	<u>\$27,552,529</u>	<u>\$2,177,804</u>	<u>\$1,997,592</u>	<u>\$14,971,539</u>	<u>\$46,699,464</u>

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 March 31, 2021.

### *Credit risk*

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

### *Market risks*

#### 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### *Banking risk*

Notwithstanding that a majority of states have legalized medical cannabis, and the U.S. Congress's passage of the Secure and Fair Enforcement (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.

## **Subsequent Events**

### *SLWS*

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

- (i) the plaintiff immediately being entitled to restitution and possession of the premises;
- (ii) the lease for SLWS premises being declared forfeited; and
- (iii) the plaintiff being awarded unpaid rent and damages.

On April 1, 2021, the Company filed a request for temporary stay of eviction. The request was granted and the parties mutually agreed to stay the eviction until May 15, 2021. On April 26, 2021, the Company entered into a settlement agreement with the landlord which included extending the lease until October 31, 2021 and the grant of landlord permission for the sale of cannabis to the adult-use market, a pre-condition to state licensing of adult use sales.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

On May 3, 2021, the Company announced that its SLWS dispensary would be transitioning from medical to adult-use retail sales as part of an agreement with the landlord of the property which provided authorization for adult-use sales upon approval from the BCC. On May 11, 2021, the Company received approval from the BCC to commence adult-use retail sales and began selling to adult-use consumers at SLWS. See "Recent Developments" for further details.

### *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.

### *SJW 280E cases*

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

### *Related Party Note Receivable*

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

### *Revolving Credit Facility*

On May 28, 2021, the Company drew down approximately \$11.5 million on the Credit Facility in anticipation of consummating the purchase of the Production Campus in Salinas.

## **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 Company's unaudited condensed interim 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.

## **Outlook and Impact of COVID-19<sup>5</sup>**

The novel coronavirus commonly referred to as "COVID-19" was identified in December 2019 in Wuhan, China. On January 30, 2020, 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

---

<sup>5</sup> 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".

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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, 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 the supply chain related delay in completing the improvements at the Production Campus, 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.

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 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](http://shopharborside.com);
- Redesigned the [shopharborside.com](http://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 Q1 2021 with a cash balance of approximately \$30.9 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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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.

### 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](http://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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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*

On August 29, 2013, per the Cole Memo, 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.

On January 4, 2018, 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".

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

*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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### *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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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 U.S. Customs and Border Protection (“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”.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### *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, and may need to be subordinated to the Credit Facility and to the Secured Indemnity, 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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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 May 14, 2021, the Company appealed the United States Tax Court decisions with respect to the Cases to disallow all of the SJW's deductions pursuant to IRC Section 280E for all years at issue.

### *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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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.

### *If our cannabis and cannabis products become subject to increased taxes it could adversely affect our business*

Purchases by the Company's customers of its cannabis and cannabis products are sensitive to increased sales taxes, excise taxes and general economic conditions affecting customer disposable income. Discretionary consumer purchases, such as of cannabis and cannabis products, may decline during recessionary periods or at other times when disposable income is lower and taxes may be higher. Presently, the sale of cannabis and cannabis products are subject to state and local sales and excise taxes. Should federal, state, and local governments and/or other taxing authorities begin or continue to impose additional sales and/or excise taxes, it may have a material adverse effect on the demand, 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.

### *Regulatory or agency proceedings*

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 cease trade order (the "CTO"), which halted all trading in the Company's SVS, until the Company 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. The Company applied to the Ontario Securities Commission 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### *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 MVS*

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 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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,

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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 labor costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labor 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### *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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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. 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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### *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:

- **Mandatory Closure:** 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.
- **Customer Impact:** 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.
- **Supply Chain Disruption:** 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 experienced minimal supply chain disruptions. 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.
- **Staffing Disruption:** 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 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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### *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 meeting its financial objectives. 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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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, tsunamis, 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### 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 \$401.0 million of historical sales (including gross revenue of more than \$13.0 million in Q1 2021), 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 (an entity which the Company does not control), 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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 10<sup>th</sup> 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 31<sup>st</sup> and 32<sup>nd</sup> 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 46<sup>th</sup> 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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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 16<sup>th</sup> 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").

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### 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 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### 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 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 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,

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

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 unaudited condensed interim consolidated statements of financial position that pertain to U.S. cannabis activities as at March 31, 2021:

<b>Statement of Financial Position Line Items</b>	<b>Percentage (%) which related to holdings with U.S. cannabis-related activities</b>
Cash	65%
Restricted cash	100%
Accounts receivable, net	95%
Inventories	100%
Biological assets	100%
Prepaid expenses	90%
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 and other assets	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 three months ended March 31, 2021:

<b>Statement of Loss and Comprehensive Loss Line Items</b>	<b>Percentage (%) which related to holdings with U.S. cannabis-related</b>
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	78%
Share-based compensation	100%
Allowance for expected credit losses	100%
Depreciation and amortization	100%
Interest income (expense), net	100%
Other income (expense)	100%
Provisions	100%
Fair value gain in other current assets, derivative liabilities and preferred shares	100%
Foreign exchange loss	-

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

### *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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

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

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

– 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.

### *(viii) 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.

# HARBORSIDE INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2021

---

*(ix) 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.

*(x) 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.

*(xi) 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.

### **Management's Responsibility for Financial Information**

Management is responsible for all information contained in this MD&A. The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the Q1 2021 Financial Statements in all material aspects.

### **Approval**

The Audit Committee has reviewed the Q1 2021 Financial Statements and this MD&A with management of the Company. At the recommendation of the Audit Committee, the Board of Directors of the Company has approved the Q1 2021 Financial Statements and the disclosures contained in this MD&A.

**May 31, 2021**

Peter Bilodeau  
Interim CEO