



HARBORSIDE INC.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2021

(Expressed in United States Dollars)

August 30, 2021

HARBORSIDE INC.

Management's Discussion and Analysis For the Three and Six Months Ended June 30, 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 and six months ended June 30, 2021 ("Q2 2021"). It is supplemental to, and should be read in conjunction with, the unaudited condensed interim consolidated financial statements of Harborside for the three and six months ended June 30, 2021 and 2020 (the "Q2 2021 Financial Statements"). The Q2 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 August 30, 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 and six months ended June 30, 2021 are 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 "COVID-19 Strategy", and "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 on 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 referenced in this MD&A under the heading "Risk Factors".

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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 constantly evolving and it is difficult for management to identify all risks, or quantify those identified, or to assess their impact on particular financial measures and operating results at the current time. Nevertheless, the discussion under "Risk Factors" identifies 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 ("FVLCS") 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 Q2 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, or its website at www.investharborside.com.

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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 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9, 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 was initially established in 2006, and today 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. On December 18, 2020, the Company acquired a 21% ownership interest in FGW Haight, Inc. ("FGW"), a company that has the conditional use approval necessary to operate a retail cannabis dispensary in the Haight Ashbury area of San Francisco. The Company currently anticipates that FGW will open the Haight Ashbury dispensary in the fourth quarter of 2021.

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 light deprivation greenhouses containing approximately 200,000 total square feet ("sq. ft.") of licensed cannabis cultivation. The cultivation operation includes approximately 155,000 sq. ft. of canopy space devoted to flowering plants and 45,000 sq. ft. of canopy devoted to nursery space. One greenhouse features 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. On June 30, 2021, the Company announced that it had completed certain upgrades to the Production Campus, including, among other things, the installation of blackout curtains, supplemental LED grow lights, and the incorporation of a state-of-the-art environmental control system. The Company is expecting these improvements to result in an increase in yield and output at the Production Campus. The Production Campus also processes and distributes branded cannabis products in various consumer formats to Harborside's retail dispensaries along with other retailers and distributors throughout California.

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. 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. The Merger Option Agreements provided FLRish with the right (the "Merger Options") to purchase 100% of the equity interests of PMACC and SJW. The Company determined that on January 7, 2019, the date the Merger Option Agreements were executed, the Company obtained de facto control of PMACC and SJW.

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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% 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 Q2 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 (%)
			June 30,	December
			2021	31, 2020
Harborside Inc.	Ontario, Canada	Parent	100	100
FLRish Farms Cultivation 2, LLC	California, U.S.	Operating 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
LGC LOR DIS 2, LLC	Oregon, U.S.	Operating Company	100	100
FGW Haight Inc.	California, U.S.	Operating Company	21	21
LGC LOR DIS 1, LLC	Oregon, U.S.	Operating Company	100	100
Savature Inc.	California, U.S.	Operating Company	100	100
FLRish, Inc.	California, U.S.	Management 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
Encinal Productions RE, LLC	California, U.S.	Holding Company	100	-
FFC1, LLC	California, U.S.	Holding Company	100	100
FLRish Farms Cultivation 7, LLC	California, U.S.	Holding Company	100	100
FLRish Flagship Enterprises, Inc.	California, U.S.	Holding 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 Affiliates, LLC	California, U.S.	Holding Company	100	100
FLRish Retail JV, LLC	California, U.S.	Holding Company	100	100
Haight Acquisition Corporation	Delaware, U.S.	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
Lineage GCL California, LLC	California, U.S.	Holding Company	100	100
Unite Capital Corp.	Ontario, Canada	Holding Company	100	100
SaVaCa, LLC	California, U.S.	Holding Company	100	100

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Outlook and Growth Strategy¹

The Company, through its subsidiaries, is a fully licensed, vertically integrated 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;
- owns one dispensary located in Eugene, Oregon that operates under the Terpene Station brand; and
- owns a 21% 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. FGW is currently in the midst of building out the dispensary, which is expected to open in the fourth quarter of 2021. Prior to the end of 2021, the Company expects to increase its ownership interest in FGW to 80%.

The Company also operates the Production Campus in Salinas, which is approximately 47 acres in overall size and contains five active light deprivation 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 roof 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 included, among other things, the installation of new floors, blackout curtains and supplemental LED grow lights, and the incorporation of a state-of-the-art environmental control system. The project was substantially completed during the second quarter of 2021.

The Company also announced in November 2020 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 Farms", "Harborside Farms Reserve" and "KEY" brands are positioned for growth in the area of consumer branded products, including those which are expected to be sold at wholesale to other licensed retailers and distributors throughout California.

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

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Strategies

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

- Expand its vertical integration efforts and overall retail footprint throughout California by acquiring other California focused companies and brands;
- Continue to increase the sell-through of in-house brands across its own retail store footprint;
- Improve its cannabis production efficiencies and yields;
- Utilize Company owned cultivation facilities to improve quality and margins on branded products produced in-house, including those sold under the Fuzzies Brand (see *Subsequent Events*);
- Continue to streamline its manufacturing/processing capabilities;
- Expand the wholesale distribution of its branded consumer packaged goods to other licensed retailers and distributors throughout California;
- Shift more of its cultivation output from bulk cannabis products to branded consumer packaged goods;
- Increase the number of branded cannabis product offerings, including non-flower cannabis products; and
- Create (or acquire) new California centric consumer brands.

The Company expects to identify and 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 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. The Company has not established a definitive timeline to complete the licensure and buildout of a new location and 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;
- California will provide an efficient base to service an interstate commerce market if and when it opens up;
- Vertical integration in the supply chain will create efficiencies for the Company, reduce costs and improve profits by improving business operations.

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 geographic and economic size 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.

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While the Company has invested significantly to scale its production operations, management believes that unbranded wholesale cannabis flower sales prices may eventually be negatively 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 initially 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, offered for sale through its own retail operations as well as through other licensed retailers and distributors throughout the entire state of California.

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.

Recent Developments

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.

On July 2, 2021, as part of its objective to expand the wholesale distribution of its branded consumer packaged goods to other licensed retailers and distributors throughout California, the Company acquired 100% of the issued and outstanding shares of Sublimation Inc. ("Sublime"), a company known for its award winning and market leading line of Fuzzies branded infused pre-rolls. Total consideration for the acquisition consisted of approximately \$43,800,000 (the "Sublime Acquisition"), which was comprised of approximately \$38,400,000 payable in MVS of Harborside, representing 207,579.66 MVS, and approximately \$5,400,000 in cash. In addition, concurrent with the closing of the Sublime Acquisition, the Company granted stock options to purchase an aggregate of 536,875 SVS to certain employees of Sublime, who are now employees of the Company. Each stock option is exercisable into one SVS of the Company at an exercise price of \$1.78. The stock options will expire five years from the date of grant and are subject to vesting conditions. In addition, the Company assumed the outstanding options of Sublime upon closing of the Sublime Acquisition, with such number of underlying SVS to be issuable upon exercise of such options to be reasonably determined by the Board in accordance with the provisions of the definitive agreement relating to the Sublime Acquisition.

On July 19, 2021, the Company announced that Peter Bilodeau had resigned as Interim Chief Executive Officer ("CEO"). Concurrently, Matt Hawkins ("Hawkins"), the Chairman of the Company, assumed the position of Interim CEO and Ahmer Iqbal, former CEO of Sublime, was appointed as Chief Operating Officer of Harborside.

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Projected Revenue Guidance²

In a news release dated January 19, 2021, which is available under the Company's profile on at www.sedar.com, the Company released certain forward-looking financial projections. In that news release, the Company announced that for 2021, it expected standalone gross revenues of between \$68.0 to \$72.0 million. The anticipated increase in revenues for 2021 was 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 announced that it expected an Adjusted EBITDA in the range of 15% to 17% of revenues for 2021. Management expected 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 and assuming no acquisitions are completed. Targeted revenue at our retail dispensaries through the end of the year are based on our YTD results excluding the impacts of any potential or recently completed acquisitions of the Company, including the Sublime Acquisition;
- Targets are based on improved flower yields and additional cultivation cost improvement plans realized in 2020, and those anticipated to be realized during 2021;
- Both retail and wholesale revenue sustainability and growth depend on a variety of factors, including among other things, location, competition, legal and regulatory requirements. Pricing is projected forward using a combination of ongoing and anticipated market trends, as well as recently realized wholesale and retail prices;
- Selling, general and administrative expenses through the end of 2021 are assumed to decrease as a percentage of revenues due to inherent scalability of selling, general and administrative expenses and our cost cutting initiatives outlined above. Additionally, total selling, general and administrative expenses include an allocation for corporate overhead and public company costs; 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. The financial guidance previously provided and discussed herein does not contemplate the impacts of any potential or recently completed acquisitions of the Company, including the Sublime Acquisition.

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

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Selected Financial Information

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Results of operations

\$ in thousands	Three months ended	Three months ended	Three months ended	Six months ended	Six months ended
	June 30, 2021	June 30, 2020	March 31, 2021	June 30, 2021	June 30, 2020
	\$	\$	\$	\$	\$
Gross revenue	16,198	16,149	12,958	29,156	30,787
Cultivation taxes	(844)	(865)	(517)	(1,361)	(1,834)
Net revenue	15,354	15,284	12,441	27,795	28,953
Cost of sales	8,354	8,111	6,614	14,968	16,741
Gross profit before FVLCS	7,000	7,173	5,827	12,827	12,211
Gross profit	8,711	7,596	4,589	13,299	14,256
Expenses	9,020	7,119	7,799	16,819	13,302
Operating income (loss)	(309)	477	(3,211)	(3,520)	954
Other income (expense)	3,637	(839)	1,375	5,012	(2,272)
Income tax expense	(1,658)	(1,386)	(1,075)	(2,734)	(2,817)
Net income (loss) attributable to Harborside Inc.	1,758	(1,748)	(2,911)	(1,153)	(4,135)
Adjusted EBITDA	1,122	2,012*	961	2,083*	2,372

* Adjusted EBITDA amounts for the three and six months ended June 30, 2020 have been revised based on 2020 year-end adjustments

During the three months ended June 30, 2021, the Company generated retail revenue of \$11.0 million and wholesale revenue of \$5.2 million, for total gross revenue of \$16.2 million, as compared to retail revenue of \$10.9 million and wholesale revenue of \$5.2 million, for total gross revenue of \$16.1 million during the three months ended June 30, 2020. Retail revenue for the quarter was consistent with the quarter in the prior comparative period. During the six months ended June 30, 2021, the Company generated retail revenue of \$21.0 million and wholesale revenue of \$8.2 million, for total gross revenue of \$29.2 million, as compared to retail revenue of \$21.1 million and wholesale revenue of \$9.7 million, for total gross revenue of \$30.8 million during the six months ended June 30, 2020. While retail revenue was supported by additional consumer options like curbside and in-store pickup, improved in-store merchandising and a focus on selling more items that were produced in-house, results were dampened by decreased in-store foot traffic due to intermittent COVID-19 indoor capacity restrictions in California.

Wholesale revenues improved from the three months ended March 31, 2021, to the three months ended June 30, 2021 as the Company recovered from the lower-than-expected flower yields experienced by the Production Campus during the three months ended March 31, 2021. The facility delivered improved harvest yields and flower quality in three months ended June 30, 2021, which allowed the Company to bring more bulk product to market during the quarter.

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 COVID related supply chain disruptions; a weather event which damaged the roof over a portion of the flower canopy; and, a subsequent infestation of non-beneficial insects, which was fully addressed during the three months ended June 30, 2021 through implementing a more robust plan for how pests are managed.

The Company's retail and wholesale revenue increased \$0.9 million and \$2.3 million, respectively, from the three months ended March 31, 2021 to the three months ended June 30, 2021. The increase in retail revenue was primarily due to changes to the customer loyalty program, with less focus on cumulative discounts provided at the point of sale. The increase in wholesale revenue was primarily driven from improvements at the Production Campus that delivered improved harvest yields and flower quality during the three months ended June 30, 2021.

During the three months ended June 30, 2021, cost of goods sold for the retail and wholesale operations totalled \$4.8 million and \$3.6 million (2020 – \$5.3 million and \$2.8 million), respectively. Gross profit before biological asset adjustments for the three months ended June 30, 2021 was \$7.0 million, for a gross margin of 45.6% (2020 – \$7.2 million; gross margin before biological asset adjustments of 46.9%). During the three months ended June 30, 2021, the Company recorded an increase in FVLCS of biological asset transformation of \$2.1 million (2020 – increase in FVLCS of biological asset transformation of \$1.3 million), and a realized fair value loss on amounts included in inventories sold of \$0.4 million (2020 – realized fair value loss of \$0.9 million), for an overall gross profit of \$8.7 million and gross margin of 56.7%

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(2020 – gross profit of \$7.6 million and gross margin of 49.7%). Year-over-year combined gross margins increased primarily due to higher flower yields from cultivation, improved pricing of retail products and fewer product discounts offered to retail customers.

Cost of sales for the three months ended June 30, 2021 increased by \$1.7 million compared to the three months ended March 31, 2021. The increase was a result of higher sales volume primarily from wholesale sales. Gross profit for the three months ended June 30, 2021 increased by \$4.1 million compared to the three months ended March 31, 2021 as a result of the higher sales volumes and improved gross margins in both the retail and wholesale operations.

During the six months ended June 30, 2021, cost of goods sold for the retail and wholesale operations totalled \$9.3 million and \$5.7 million (2020 – \$10.3 million and \$6.4 million), respectively. Gross profit before biological asset adjustments for the six months ended June 30, 2021 was \$12.8 million, or a gross margin of 46.1% (2020 – \$12.2 million; gross margin before biological asset adjustments of 42.2%). During the six months ended June 30, 2021, the Company recorded an increase in FVLCS of biological asset transformation of \$1.4 million (2020 – increase in FVLCS of biological asset transformation of \$2.3 million), and a realized fair value loss on amounts included in inventories sold of \$0.9 million (2020 – realized fair value loss of \$0.3 million), for an overall gross profit of \$13.3 million and gross margin of 47.8% (2020 – gross profit of \$14.3 million and gross margin of 49.2%). Year-over-year combined gross margins 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.

During the three months ended June 30, 2021, the Company recorded an income tax provision of \$1.7 million (2020 – \$1.4 million) based on estimated federal income taxes payable as at period-end. The increase was driven by an increase in gross profits of \$1.1 million from the prior comparative period.

During the six months ended June 30, 2021, the Company recorded an income tax provision of \$2.8 million (2020 – \$2.8 million) based on estimated federal income taxes payable as at period-end.

Overall, net income attributable to Harborside for the three months ended June 30, 2021 was \$1.8 million (net income of \$0.03 per share), as compared to a net loss attributable to Harborside of \$1.7 million (net loss of \$0.03 per share) for the comparative period in 2020.

Overall, net loss attributable to Harborside for the six months ended June 30, 2021 was \$1.2 million (net loss of \$0.02 per share), as compared to a net loss attributable to Harborside of \$4.1 million (net loss of \$0.08 per share) for the comparative period in 2020.

Net income attributable to Harborside for the three months ended June 30, 2021 increased by \$4.7 million as compared to the net loss of \$2.9 million for the three months ended March 31, 2021. The increase was primarily due to fair value changes recognized during the three months ended June 30, 2021 on other current assets and derivative liabilities held by the Company.

The Company's Adjusted EBITDA during the three months ended June 30, 2021 was \$1.1 million compared to \$2.0 million for the three months ended June 30, 2020. The decrease of \$0.9 million was primarily due to higher professional fees as well as increased general and administrative expenses recognized during the three months ended June 30, 2021 as the Company worked towards closing the Sublime Acquisition.

The Company's Adjusted EBITDA during the six months ended June 30, 2021 was \$2.1 million compared to \$2.4 million for the six months ended June 30, 2020. The decrease was primarily due to higher general and administration expenses and professional fees during the six months ended June 30, 2021.

The Company's Adjusted EBITDA improved by \$0.2 million from the three months ended March 31, 2021 to the three months ended June 30, 2021. This increase was primarily driven by addbacks for non-recurring expenses related to acquisition and litigation activities. The Company experienced higher professional fees during the three months ended June 30, 2021 due to an increased level of legal and professional fees in the current quarter relating to the Sublime Acquisition (as defined below). Adjusted EBITDA is a non-IFRS measure. Refer to the reconciliation of non-IFRS measures for further details.

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

Operating Expenses

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
<i>\$ in thousands</i>	\$	\$	\$	\$
Operating expenses				
General and administrative	5,383	4,477	9,707	8,601
Professional fees	3,253	2,288	6,438	3,950
Share-based compensation	184	(174)	183	(68)
Allowance for expected credit losses	-	-	77	-
Write-down of receivables and investments and advances	-	250	-	250
Depreciation and amortization	200	278	414	569

During the three months ended June 30, 2021, the Company incurred total operating expenses of \$9.0 million (2020 – \$7.1 million). The year-to-year increase in total operating expenses is primarily related to the following items:

- Increase in general and administrative expenses of \$0.9 million, to \$5.4 million as compared to \$4.5 million in the three months ended June 30, 2020, which was primarily attributable to (i) an increase in salaries and benefits of \$0.4 million attributable to one time bonuses; (ii) \$0.2 million increase in advertising and promotion expenses for advertising via billboards; (iii) \$0.1 million increase in banking and processing fees from an increase in the number of open bank accounts and new merchant processors that allow customers to make purchases using a variety of payment types; and (iv) \$0.1 million increase in office and general expenses.
- Increase in professional fees of \$1.0 million, to \$3.3 million as compared to \$2.3 million in the three months ended June 30, 2020, which was primarily due to an increased level of legal and professional fees in the current quarter related to a pending acquisition (discussed in the subsequent events section) and general legal expenses incurred over the course of normal operations, 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.

During the six months ended June 30, 2021, the Company incurred total operating expenses of \$16.8 million (2020 – \$13.3 million). The year-to-year increase in total operating expenses is primarily related to the following items:

- Increase in general and administrative expenses of \$1.1 million, to \$9.7 million as compared to \$8.6 million in the six months ended June 30, 2020, which was attributable to (i) and increase in salaries and benefits of \$0.6 million from one time bonuses and executive search fees for the VP of Production and a new CEO; (ii) \$0.2 million increase in advertising and promotion expenses for advertising via billboards; (iii) \$0.2 million increase in banking and processing fees from an increase in the number of open bank accounts and new merchant processors that allow customers to make purchases using a variety of payment types; and (iv) \$0.1 million increase in taxes and licenses from prior year property tax expenses.
- Increase in professional fees of \$2.4 million, to \$6.4 million as compared to \$4.0 million in the six months ended June 30, 2020 which was primarily due to fees associated with warrants issued in the Company's offering of units on February 18, 2021 (the "Offering"), plus an increased level of legal and professional fees in the current period related to operational improvement consulting as well as general and acquisition related legal matters, whereas in the comparative period in 2020, professional fees were primarily incurred 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.

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Other income (expense)

For the three months ended June 30, 2021, other income was \$3.6 million and consisted of (i) \$5.0 million in fair value gain in other current assets, derivative liabilities and preferred shares from the fair value of the conversion option on the convertible note with FGW, the Loudpack debenture and the Company's derivative liabilities; (ii) \$0.4 million foreign exchange gain; (iii) \$0.1 million gain on debt extinguishment from the pay down of obligations owed to CFP Fund I, LLC (the "CFP Loan") under a lease agreement relating to property and equipment located at the Production Campus; (iv) \$1.0 million other expense primarily from legal settlements; and (v) \$0.9 million interest expense from accrued interest on the provision.

For the six months ended June 30, 2021, other income was \$5.0 million and consisted of (i) \$7.0 million in fair value gain in other current assets, derivative liabilities and preferred shares from the fair value of the conversion option on the convertible note with FGW, the Loudpack debenture and the Company's derivative liabilities; (ii) \$0.3 million foreign exchange gain; (iii) \$0.1 million gain on debt extinguishment from the pay down of the CFP Loan; (iv) \$0.6 million in other expense primarily from legal settlements offset by other income from management fees charged to Accucanna; and (v) \$1.8 million in interest expense from accrued interest on the provision.

Refer to Notes 7, 8 and 16 of the Financial Statements for the three and six months ended June 30, 2021 for a summary of the Company's conversion option, debenture and derivative liabilities, respectively.

Selected quarterly financial results

The following tables presenting the Company's quarterly results of operations should be read in conjunction with the Q2 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 June 30, 2021 are as follows:

	Q2 2021	Q1 2021	Q4 2020	Q3 2020
	\$	\$	\$	\$
Retail revenue, net	10,962,053	10,036,262	10,212,430	10,681,897
Wholesale revenue, net	5,236,230	2,921,268	2,844,895	8,890,723
Gross revenue	16,198,283	12,957,530	13,057,325	19,572,620
Gross profit	8,710,826	4,588,513	6,722,582	8,615,344
Operating expenses	(9,019,857)	(7,799,104)	(12,162,080)	(7,829,586)
Operating income (loss)	(309,031)	(3,210,591)	(5,439,498)	785,758
Net income (loss) attributable to Harborside Inc.	1,757,955	(2,910,749)	(5,397,824)	(2,413,987)
Net income (loss) per share – basic	0.03	(0.06)	(0.14)	(0.06)
Net income (loss) per share – diluted	0.03	(0.06)	(0.14)	(0.06)

	Q2 2020	Q1 2020	Q4 2019	Q3 2019
	\$	\$	\$	\$
Retail revenue, net	10,940,143	10,181,471	9,511,222	10,393,497
Wholesale revenue, net	5,208,439	4,456,775	2,185,701	3,299,720
Gross revenue	16,148,582	14,638,246	11,696,923	13,693,217
Gross profit	7,596,476	6,659,806	3,055,900	4,888,112
Operating expenses	(7,119,202)	(6,182,951)	(46,608,569)	(8,464,955)
Operating income (loss)	477,274	476,855	(43,552,669)	(3,576,843)
Net loss and comprehensive loss	(1,747,743)	(2,387,136)	(44,961,961)	(1,943,496)
Net loss per share – basic and diluted	(0.03)	(0.05)	(1.40)	(0.05)

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Selected Cash Flow Information for the Three and Six Months Ended June 30, 2021

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Net cash (used in) provided by:				
Operating activities	\$ (5,056)	\$ 1,436	\$ (6,274)	\$ 2,310
Financing activities	1,800	(586)	29,131	(579)
Investing activities	(1,285)	(288)	(7,013)	(504)
Effects of foreign exchange on cash and restricted cash	554	(83)	634	246
Net decrease in cash and restricted cash	(3,987)	479	16,478	1,473
Cash and restricted cash, beginning of period	30,923	13,159	10,458	12,165
Cash and restricted cash, end of period	\$ 26,936	\$ 13,638	\$ 26,936	\$ 13,638

Operating activities

Net cash used in operating activities for the three months ended June 30, 2021 increased by \$6.5 million as compared to the same period in the prior year. The increase was primarily due to adjustments to reconcile the net loss related to the fair value gain in other current assets, derivative liabilities, and preferred shares of \$5.0 million. The fair value gain in other current assets, derivative liabilities and preferred shares was derived primarily from fair value changes in warrant liability. In addition, there was an increase in non-cash working capital over the same period in the prior year of \$1.0 million. The increase in cash used was mainly driven by an increase in accounts receivable, net of \$1.1 million; accounts payable and accrued liabilities for payments due to suppliers of \$0.6 million; payments made for accrued interest and notes payable from the repayment of the CFP Loan of \$1.7 million. The increases in cash used were partially offset by a decrease in inventories of \$2.5 million.

Net cash used in operating activities for the six months ended June 30, 2021 increased by \$8.6 million as compared to the same period in the prior year. The increase was primarily due to adjustments to reconcile the net loss related to the fair value gain in other current assets, derivative liabilities, and preferred shares of \$7.0 million. The fair value gain in other current assets, derivative liabilities and preferred shares was derived primarily from the fair value changes in the warrant liability. In addition, there was an increase in non-cash working capital over the same period in the prior year of \$5.6 million. The increase was mainly driven by an increase in accounts receivable, net of \$1.3 million; change in biological assets of \$1.2 million; accounts payable and accrued liabilities for payments due to suppliers of \$2.0 million; and payments made for accrued interest and notes payable from the repayment of the CFP Loan of \$1.8 million. The increases in cash used were partially offset by decreases to inventories of \$1.2 million; a decrease in the net loss for the six months of \$2.9 million; and decreases to changes in fair value less costs to sell of biological asset transformation of \$0.9 million as compared to the prior year.

Financing activities

Net cash provided by financing activities for the three months ended June 30, 2021 increased by \$2.4 million, primarily from funds of \$11.8 million drawn from its senior secured revolving credit facility with a federally regulated commercial bank due March 2023 (the "Credit Facility"), which was offset by the principal repayment of notes payable of \$9.1 million related to the CFP Loan and cash payments of principal on the lease liabilities of \$0.7 million. The Company also received proceeds of approximately \$0.2 million from the exercise of a total of 825,627 stock options during the quarter. During Q2 2020, net cash provided by financing activities was minimal, in the form of \$1,103 received from the exercise of stock options, which represented the sole financial activity for the comparative period.

Net cash provided by financing activities during the six months ended June 30, 2021 was \$29.1 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 \$11.8 million from the Credit Facility, which was offset by the principal repayment of notes payable of \$9.1 million related to the CFP Loan and cash payments of principal on the lease liabilities of \$0.7 million. The Company also received proceeds of approximately \$0.2 million from the exercise of 1,294,377 stock options during the period. During the six months ended June 30, 2020, net cash provided by financing activities was minimal in the form of \$8,367 received from exercises of 848,654 stock options, which represented the sole financial activity for the comparative period.

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Investing activities

Net cash used in investing activities during the three months ended June 30, 2021 was \$1.3 million, driven primarily by investments in property, plant and equipment of \$1.4 million related to the Company's upgrade of one of its greenhouses at the Production Campus and costs incurred in the build out of the San Francisco dispensary, offset by the repayment of the related party note receivable. During Q2 2020, net cash used in investing activities was \$0.3 million, of which the majority was directed toward the investment in Accucanna for delivery of products at wholesale value under the stock purchase agreement.

Net cash used in investing activities during the six months ended June 30, 2021 was \$7.0 million, driven primarily by the \$5.0 million purchase of the Loudpack Debentures, as well as investments in property, plant and equipment of \$2.1 million related to the Company's upgrade of one of its greenhouses at the Production Campus and the build out of the San Francisco dispensary. During the six months ended June 30, 2020, net cash used in investing activities was \$0.5 million, of which approximately \$0.2 million was spent on additions of new property, plant and equipment and \$0.3 million was used for the investments made in Accucanna for delivery of products at wholesale value under the stock purchase agreement.

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.

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
	\$	\$	\$	\$
Net Revenue	15,354,127	15,283,941	27,795,042	28,952,770
Gross Profit	8,710,826	7,596,476	13,299,339	14,256,282
Adjusted for:				
Net effect of change in fair value less cost to sell of biological asset transformation	(2,114,619)	(1,282,559)	(1,397,389)	(2,324,001)
Adjusted Gross Profit	6,596,207	6,313,917	11,901,950	11,932,281
Adjusted Gross Margin	43.0%	41.3%	42.8%	41.2%

After adjusting for the net effect of the change in fair value less cost to sell of biological asset transformation, the Adjusted Gross Profit for the three and six months ended June 30, 2021 was \$6.6 million and \$11.9 million (2020 – \$6.3 million and \$11.9 million), respectively. The Adjusted Gross Margin for the three and six months ended June 30, 2021 was 43.0% and 42.8% (2020 – 41.3% and 41.2%), respectively.

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Adjusted EBITDA & Adjusted EBITDA Margin

“Adjusted EBITDA” is a metric used by management which is net income (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 assets, 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 depreciation and amortization, interest, provisions for income taxes, other non-cash and extraordinary non-recurring items, 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 and six months ended June 30, 2021 was \$1.1 million and \$2.1 million (2020 – adjusted EBITDA of \$2.0 million and \$2.4 million), respectively. The Adjusted EBITDA Margin for the three and six months ended June 30, 2021 was 7.3% and 7.5% (2020 – adjusted EBITDA margin of 13.2% and 8.2%), respectively.

	Three months ended June 30, 2021	Three months ended June 30, 2020	Three months ended March 31, 2021	Six months ended June 30, 2021	Six months ended June 30 2020
Net income (loss) attributable to Harborside Inc.	1,757,955	(1,747,743)	(2,910,749)	(1,152,794)	(4,134,879)
Adjusted for:					
Biological assets adjustments	(1,710,533)	(423,600)	1,238,145	(472,388)	(2,044,969)
Share-based compensation	184,149	(173,792)	(1,000)	183,149	(68,058)
Write-down of receivables and investments and advances	-	250,280	-	-	250,280
Impairment loss	-	-	-	-	-
Depreciation and amortization	199,558	277,933	214,108	413,666	568,577
Depreciation included in COGS	514,484	510,823	513,132	1,027,616	1,019,240
Interest expense	903,129	1,075,323	915,562	1,818,691	2,178,453
Provision for 280E	-	-	-	-	-
Fair value change in other assets, derivative liabilities and preferred shares	(4,974,058)	40,913	(2,013,059)	(6,987,117)	(3,059)
Foreign exchange (gain) loss	(391,736)	(161,442)	45,199	(346,537)	247,340
Non-recurring expenses	2,980,875	976,985	1,884,306	4,865,181	1,541,980
Income tax provision	1,658,447	1,386,127	1,075,252	2,733,699	2,816,954
Adjusted EBITDA	1,122,270	2,011,807	960,896	2,083,166	2,371,859
Adjusted EBITDA Margin	7.3%	13.2%	7.7%	7.5%	8.2%

Issued and Outstanding Share Capital

As at June 30, 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	36,742,332
Multiple Voting Shares	22,923,195
Options	5,266,520
Contingent Stock Grants	75,000
Warrants	14,175,900
Broker Warrants	1,138,308
Convertible Debts	58,492
Total Fully Diluted Share Capital	80,857,729

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As at August 30, 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	39,447,260
Multiple Voting Shares	41,017,733 ³
Options	5,803,395 ⁴
Contingent Stock Grants	75,000
Warrants	14,175,900
Broker Warrants	1,138,308
Convertible Debts	58,492
Total Fully Diluted Share Capital	101,716,088

Commitments and Contingencies

From time to time, the Company may become a party to legal action and the Company intends to take appropriate action with respect to any such legal action, 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. Other than the claims described below, as of the date of this report, the Company is not aware of any other material or significant claims against the Company.

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 fully 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 U.S. Tax Court, determined that a reserve for an uncertain tax position should be recorded. As at June 30, 2021 and December 31, 2020, the reserve totaled \$38,604,658 and \$37,758,875, respectively. On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to SJW to disallow all of SJW's deductions pursuant to IRC Section 280E for all the years at issue. On May 14, 2021, the Company appealed the Tax Court ruling. The Company is currently attempting to resolve the matter as part of a global settlement.

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 were resolved and settled on June 9, 2021. Pursuant to the settlement agreement, the Company made a one-time payment, net of insurance coverage, of approximately \$1,535,000 to settle all aspects of the litigation.

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

³ The increase in MVS is the result of shares issued as part of the Sublime Acquisition. Refer to the Related Party Transaction and the Subsequent Events section for further details.

⁴ Number does not reflect the number of underlying SVS issuable upon exercise of the options assumed from Sublime pursuant to the Sublime Acquisition, as such, number of underlying SVS has yet to be reasonably determined by the Board in accordance with the provisions of the definitive agreement relating to the Sublime Acquisition.

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to a number of alleged violations of the terms and conditions of the property lease between SLWS and the Defendants. On March 30, 2021, the court ruled against SLWS and entered a judgment and on April 26, 2021, the Company entered into a settlement agreement with the landlord which included extending the lease until October 31, 2021 and authorizing adult use retail sales on the premises for the duration of the lease.

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 ("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.

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 Michael Adams. The complaint, filed on January 7, 2020 in Superior Court of the State of California for Alameda County, alleges violations of California law 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 the plaintiff. 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 the 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 Q2 2021 Financial Statements, no follow-up mediation date has been set. The parties continue to engage in pre-trial discovery. A trial date remains to be set.

HARBORSIDE INC.

Management's Discussion and Analysis For the Three and Six Months Ended June 30, 2021

Employment agreements

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

Off-Balance Sheet Arrangements

As at June 30, 2021 and the date of this MD&A, the Company does not have any off-balance sheet arrangements.

Working Capital and Liquidity Outlook⁵

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

As at June 30, 2021, the Company had total current assets of approximately \$38.4 million (December 31, 2020 – approximately \$19.8 million), including cash and restricted cash of approximately \$26.9 million (December 31, 2020 – approximately \$10.5 million) to settle current liabilities of approximately \$67.3 million (December 31, 2020 – approximately \$63.5 million), for a net working capital deficiency of approximately \$28.9 million (December 31, 2020 – working capital deficiency of approximately \$43.7 million).

The higher amount of current liabilities as at June 30, 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 Q2 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 the cash flow requirements from operations, the expected timing of its provision related to 280E and the Company's cash position at period-end.

⁵ 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".

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Management's Discussion and Analysis For the Three and Six Months Ended June 30, 2021

Related Party Transactions

Key Management Personnel Compensation

Key management includes directors and officers of the Company. Total compensation (comprised of salaries, benefits, one-time bonuses and share-based payments) awarded to key management for the three and six months ended June 30, 2021 and 2020 was as follows:

	Three Months ended June 30, 2021	Three Months ended June 30, 2020	Six Months ended June 30, 2021	Six Months ended June 30, 2020
	\$	\$	\$	\$
Short-term employee benefits, including salaries and directors' fees	324,828	548,144	663,725	1,113,277
Executive bonuses	246,250	-	246,250	-
Share-based compensation – Directors and Executives	141,643	(173,792)	282,414	(71,461)
	712,721	374,352	1,192,389	1,041,816

As June 30, 2021, \$29,662 was owed to Emtra Business Services, Inc., a company controlled by Peter Bilodeau, Interim CEO, through which Mr. Bilodeau is compensated for his services as CEO of the Company (December 31, 2020 – \$26,250). On July 19, 2021, Mr. Bilodeau resigned as Interim CEO of the Company.

As at June 30, 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 an estimated severance cost of approximately \$829,000 which is expected to be paid over a period of 24 months after a separation agreement is reached.

As at June 30, 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 June 30, 2021, \$26,536 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.

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Related Parties

		Transactions for the three months ended		Transactions for the six months ended		Balance outstanding	
		June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020	June 30, 2021	December 31, 2020
Purchases of goods or services from related parties:							
Nutritional High International Inc.	Adam Szweras, a former director of the Company, serves as the Chairman of the Board of the Directors of Nutritional High International Inc. As of November 2020, Mr. Szweras is no longer a related party of the Company.	\$ -	\$ 77,390	\$ -	\$ 159,075	\$ -	\$ 169,350
Flow Cannabis Co.	Kevin Albert, a director of Company, serves as a director on the board of Flow Cannabis Co.	\$ -	\$ 40,530	\$ 833	\$ 64,465	\$ 1,517	\$ 6,705
Sublime	Matthew Hawkins and Andrew Sturner, directors of the Company, are partners at Entourage Effect Capital which is an investor in Sublime. As of July 2, 2021, Sublime was acquired by the Company.	\$ 110,746	\$ 39,072	\$ 195,221	\$ 39,072	\$ 63,744	\$ 56,788
Branson Corporate Services Ltd. ("Branson")	Branson provides finance, accounting and administrative services to the Company. Mr. Bilodeau holds a 16% ownership interest in Branson. As of July 19, 2021, Branson is no longer a related party of the Company.	\$ 42,649	\$ 32,494	\$ 86,648	\$ 65,988	\$ 16,491	\$ 15,975
Black Oak Ventures ("Black Oak")	Black Oak provides certain investor relations services to the Company. Black Oak's principal is an immediate family member of Mr. Bilodeau. As of July 19, 2021, Black Oak is no longer a related party of the Company.	\$ 18,000	\$ 29,333	\$ 36,000	\$ 29,333	\$ 6,780	\$ 12,602
Aird & Berlis LLP	Sherri Altshuler, a former director of the Company, is a partner at Aird & Berlis LLP, a law firm which provides legal services to the Company. As of November 2020, Ms. Altshuler is no longer a related party.	\$ -	\$ 107,607	\$ -	\$ 197,129	\$ -	\$ 548,654
Fogler, Rubinoff LLP ("Fogler")	Adam Szweras, a former director of the Company is a partner at Fogler, a law firm in which provided legal services to the Company. As of November 2020, Mr. Szweras is no longer a related party of the Company.	\$ -	\$ 8,791	\$ -	\$ 3,690	\$ -	\$ -
Sales to related parties:							
Sublime	Matthew Hawkins and Andrew Sturner, directors of the Company are partners at Entourage Effect Capital which is an investor in Sublime. As of July 2, 2021, Sublime was acquired by the Company.	\$ 338,662	\$ 83,223	\$ 566,472	\$ 83,223	\$ 171,541	\$ (39,914)

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All purchases of goods and services were at arm's length market rates. All sales of goods were at arm's length market rates.

Sublime Acquisition⁶

As at July 2, 2021, the closing date of the Sublime Acquisition, Cresco Capital Partners II LLC ("Cresco") beneficially owned, and exercised control or direction over approximately 18.68% of the SVS. On a fully-diluted basis, Cresco owned less than 10.0% of the issued and outstanding SVS and approximately 12.76% of the issued and outstanding SVS on an as-converted and partially-diluted basis. The completion of the Sublime Acquisition resulted in the issuance of 207,579.66 MVS to Sublime shareholders. Cresco is entitled to a minimum of 20,570.25 MVS based on its ownership of the Sublime shares, representing a decrease in Cresco's interest in the MVS of approximately 7.43% on a partially diluted basis, although (i) such MVS are currently held in trust on behalf of Cresco for 12 months; and (ii) Cresco will be entitled to a substantial number of additional shares under the terms of the lock-up agreements and escrow arrangements amongst the former shareholders of Sublime. Based on its shareholdings as at the closing date of the Sublime Acquisition, and assuming Cresco is only entitled to 20,570.25 MVS, Cresco beneficially owns, and exercises control or direction over, 697,638 SVS, 91,570.25 MVS and 35,500 warrants to purchase MVS, representing approximately 12.84% of the issued and outstanding MVS on a non-diluted basis and approximately 19.39% of the issued and outstanding MVS on a partially-diluted basis, assuming the exercise of the warrants held by Cresco. Based on its shareholdings as at the closing date of the Sublime Acquisition, and assuming the conversion or all of the MVS beneficially owned, or controlled or directed, by Cresco, and that no other securities, including those convertible into, or exercisable for, Harborside's securities, are issued, converted or exercised, Cresco beneficially owns, and exercises control or direction over approximately 22.50% of the SVS, representing an increase in Cresco's interest in the SVS of approximately 3.82%.

CCP Flrish Inc. ("CCPF"), Cresco Capital Partners, LLC ("CCP"), Hawkins and Andrew Sturner ("Sturner"), each a "joint actor" (as such term is defined in National Instrument 62-103 – The Early Warning System and Related Take-Over Bid and Insider Reporting Issues) of Cresco, also own, or exercise control or direction over, securities of Harborside. As a result of the Sublime Acquisition, Cresco, together with CCPF, CCP, Hawkins and Sturner, owns, or exercises control or direction over as at the closing date of the Sublime Acquisition, an aggregate of 91,570.25 MVS, 1,179,565 SVS, 35,500 warrants to purchase MVS and 463,350 stock options, representing approximately 19.39% of the issued and outstanding MVS on a partially-diluted basis, assuming the exercise of the warrants held by Cresco and approximately 24.40% of the issued and outstanding SVS on a partially-diluted basis, assuming (i) the conversion or all of the MVS beneficially owned, or controlled or directed, by Cresco; (ii) the exercise of the warrants held by Cresco and subsequent conversion into SVS; (iii) the exercise of all stock options owned by Hawkins; and (iv) that no other securities, including those convertible into, or exercisable for, Harborside's securities, are issued, converted or exercised.

Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of the Q2 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

There have been no material changes to the critical accounting estimates and judgements as listed in the Management's Discussion and Analysis for the year ended December 31, 2020.

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

⁶ The information in this section is based on information provided by Cresco to Harborside, and is based on Cresco's shareholdings of Harborside as at the closing date of the Sublime Acquisition.

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

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no material changes to the Company's capital management approach during the six months ended June 30, 2021 and 2020.

Financial and Risk Management

The Company is exposed to a variety of financial instrument related risks. Management, in conjunction with 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.

As at June 30, 2021, the Company had a cash and restricted cash balance of \$26,935,856 (December 31, 2020 – \$10,458,545) to settle current liabilities of \$67,329,875 (December 31, 2020 – \$63,466,254). The higher current liabilities as at June 30, 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 11, *Right-of-use Assets and Lease Liabilities*, and Note 25, *Commitments and Contingencies*, of the Q2 2021 Financial Statements, the Company has the following contractual obligations as at June 30, 2021:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	> 5 Years	Total
Accounts payable and accrued liabilities	\$ 17,686,734	\$ -	\$ -	\$ -	\$ 17,686,734
Convertible notes payable	501,234	-	-	-	501,234
Revolving credit facility	-	11,781,626	-	-	11,781,626
	<u>\$ 18,187,968</u>	<u>\$ 11,781,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,969,594</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 June 30, 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

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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 exposed to interest rate volatility as its Credit Facility has a variable interest rate based on the prime rate charged by the bank plus a premium, with a floor rate of 5.75%.

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.

Equity price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market or the cannabis sub-market. The Company's investments are subject to fluctuations in fair value arising from changes in the equity market.

Asset forfeiture risk

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

Banking risk

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

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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

On July 2, 2021, as part of its objective to expand the wholesale distribution of its branded consumer packaged goods to other licensed retailers and distributors throughout California, the Company acquired 100% of the issued and outstanding shares of Sublime, a company known for its award winning and market leading line of Fuzzies branded infused pre-rolls. Total consideration for the acquisition consisted of approximately \$43,800,000, which was comprised of approximately \$38,400,000 payable in MVS of Harborside, representing 207,579.66 MVS, and approximately \$5,400,000 in cash. In addition, concurrent with the closing of the Sublime Acquisition, the Company granted stock options to purchase an aggregate of 536,875 SVS to certain employees of Sublime, who are now employees of the Company. Each stock option is exercisable into one SVS of the Company at an exercise price of \$1.78. The stock options will expire five years from the date of grant and are subject to vesting conditions.

On July 19, 2021, the Company announced that Peter Bilodeau had resigned as CEO. Concurrently, Matt Hawkins, the Chairman of the Company, assumed the position of Interim CEO and Ahmer Iqbal, former CEO of Sublime, was appointed as Chief Operating Officer of Harborside.

On August 1, 2021, the Company entered into a prepayment of inventory agreement with a cannabis consumer products company for \$1,500,000. The Company will receive a minimum discount of 10% on all purchases of inventory from the cannabis consumer products company. The prepayment of inventory was made on August 2, 2021.

On August 30, 2021, the Company repaid the outstanding principal and interest on the Secured Convertible Notes.

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

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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.

COVID-19 Strategy⁷

During the pandemic, the Company has been able to maintain operations and expand delivery services to customers located in Oakland, San Jose and the Greater East Bay and Peninsula areas and increase curbside pick-up and/or drive-thru options at all of its retail locations to provide additional fulfillment models that are safe and efficient for employees and customers. Management has not observed any indicators of impairment to assets or a significant change in the fair value of assets due to the COVID-19 pandemic. While the Company has not experienced any failure to secure critical supplies or services, future disruptions in the supply chain are possible and may significantly increase cost. The Company implemented new in-store safety and sanitation protocols in accordance with the guidance of the Center for Disease Control (CDC) at all locations to better protect the health and safety of both employees and customers. 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. Ensuring that customers continue to have safe and uninterrupted access to its products, as well as maintaining high quality growth, cultivation, production, and manufacturing capabilities, will be critical to the Company's success. The Company is re-assessing its response to the COVID-19 pandemic on an ongoing basis. Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact of these developments on all aspects of the business.

Risk Factors

The Company's results of operations, business prospects, financial position and achievement of strategic plans are subject to a number of risks and uncertainties and are affected by a number of factors which could have a material adverse effect on the Company's business, financial condition or future prospects. These risks should be considered when evaluating an investment in the Company and may, among other things, cause a decline in the price of the shares. Other than as stated herein, the Company's risks and uncertainties have not materially changed from those described in the 'Risk Factors' section in the Company's management's discussion and analysis for the year ended December 31, 2020, and for the three months ended March 31, 2021, filed on SEDAR www.sedar.com.

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)

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

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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, the Company can convert its convertible note with FGW in order to increase its ownership in FGW to 50.1%. In addition, subject to certain regulatory approvals from the Director of the Office of Cannabis in San Francisco and the negotiation of a definitive agreement, the Company may purchase additional equity of FGW, such that the Company's ultimate ownership interest in FGW increases to 80%. Taken together, Harborside's retail dispensaries have over 15 years of operating history, with more than \$400.0 million of historical sales (including gross revenue of approximately \$16.2 million in Q2 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 California. The Harborside dispensary in Desert Hot Springs is operated under an MSA with Accucanna and includes the only drive-thru cannabis dispensary in southern California.

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

The Company also owns the "Harborside", "Harborside Farms", "Harborside Farms Reserve" and "KEY" brands. California is the largest adult-use cannabis market in the U.S. As of July 2, 2021, as a result of the Sublime Acquisition, the Company also owns the "Fuzzies" brand.

(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

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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, as of the time of this writing both Virginia and New Mexico legislatures have enacted adult-use legalization legislation, which in each case is awaiting their respective governor's signature.

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

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

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

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

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

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

On January 4, 2018, the Cole Memo was rescinded by a one-page memo signed by Mr. Sessions (the "Sessions Memo"). It is the Company's opinion that the Sessions Memo did not represent a significant policy shift as it does not alter the DOJ's discretion or ability to enforce federal cannabis laws, but rather provides additional latitude to the DOJ to potentially prosecute state-legal cannabis businesses even if they are not engaged in cannabis-related conduct enumerated by the Cole Memo as being an enforcement priority. The result of the rescission of the Cole Memo is that federal prosecutors are now

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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" in the Company's management's discussion and analysis for the year ended December 31, 2020, and for the three and six months ended March 31, 2021).

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

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

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

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

William Barr was appointed as the U.S. Attorney General on February 14, 2019. In an April 10, 2019 Senate Appropriations Subcommittee meeting to discuss the Justice Department's budget 2020, in response to a question about his position on the proposed STATES Act, Attorney General Barr stated: "Personally, I would still favor one uniform federal rule against marijuana," "But if there is not sufficient consensus to obtain that then I think the way to go is to permit a more federal approach so states can, you know, make their own decisions within the framework of the federal law. So

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we're not just ignoring the enforcement of federal law." The STATES Act, if it were to pass, would allow states to determine their own approaches to marijuana. Attorney General Barr said the legislation is still being reviewed by his office but that he would "much rather... the approach taken by the STATES Act than where we currently are." It is unclear what impact this development will have on U.S. federal government enforcement policy. The inconsistency between federal and state laws and regulations is a major risk factor. The newly nominated Attorney General, Merrick Garland, has views that are unclear on this topic. Refer to the discussion under the heading "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets".

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

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

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

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

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

In March 2021, New York became the 16th state to legalize adult-use cannabis, both doing so through legislative action. In the same month, Senate Majority Leader Chuck Schumer of New York, and Senators Ron Wyden (OR) and Cory Booker (NJ) met with cannabis industry advocates including the National Cannabis Industry Association and the Minority Cannabis Business Association to announce their intention to introduce legislation in the U.S. Senate that would legalize, tax and regulate commercial cannabis activity at the federal level. While President Biden has supported decriminalization of possession and has not expressed support for descheduling cannabis, Vice President Harris was one of the original sponsors of the MORE Act while she was still serving in the U.S. Senate, and has publicly stated her support for cannabis 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.

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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" in the Company's management's discussion and analysis for the year ended December 31, 2020, and for the three months ended March 31, 2021).

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" in the Company's management's discussion and analysis for the year ended December 31, 2020, and for the three and six 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.

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(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 FCSEA) 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 FCSEA, the U.S. Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the U.S. states in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks, and growth of the Company's business into other states may be adversely impacted by the Company's inability to pursue U.S. federal trademark registration.

Reliance on third-party service providers

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

Customs and Border Protection

Foreign investors in the Company and the Company's non-U.S. citizen directors, officers and employees may be subject to travel and entry bans into the U.S. by 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.

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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.

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

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

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

The following represents the approximate portion of certain assets on Harborside's unaudited condensed interim consolidated statements of financial position that pertain to U.S. cannabis activities as at June 30, 2021:

Statement of Financial Position Line Items	Percentage (%) which related to holdings with U.S. cannabis-related activities
Cash	58%
Restricted cash	100%
Accounts receivable, net	96%
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 approximate operating exposure on Harborside's consolidated statements of loss and comprehensive loss that pertain to U.S. cannabis activities for the six months ended June 30, 2021:

Statement of Loss and Comprehensive Loss Line Items	Percentage (%) which related to holdings with U.S. cannabis-related
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	95%
Professional fees	72%
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 gain	-

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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 permitted 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.

In 2020, Governor Newsom proposed to simplify the regulatory structure by merging the Licensing Agencies into a single, new state department, the California Department of Cannabis Control ("DCC"). Effective July 12, 2021, all licensed cannabis businesses in California are regulated by the DCC.

MAUCRSA requires anyone engaged in "commercial cannabis activity", which includes the cultivation, possession, manufacture, distribution, processing, storing, laboratory testing, packaging, labeling, transportation, delivery, or sale of cannabis and cannabis products, to be licensed (on an annual basis) to perform such activity. 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. Vertical integration across multiple license types is allowed under MAUCRSA, although testing laboratory licensees may not hold any licenses other than a laboratory license.

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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, which included cannabis workers. In addition, cannabis operations were also deemed essential and encouraged to remain open under the various shelter-in-place orders issued by the applicable local county health officers.

Oregon

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

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

In Oregon, there are six types of commercial cannabis licenses: producer (cultivation), processor (manufacture), wholesaler, retailer (dispensary), laboratory (testing), and research. Extracted oils, edibles, and flower products are permitted. Wholesaling and delivery are also permitted.

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, with the exception of producer applications pursuant to SB 218, it continues to accept new applications. 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 has allowed cannabis operators to remain open during the COVID-19 pandemic.

(vii) 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,

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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 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.

(viii) 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 two 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.

(ix) 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 both California and Oregon.

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(x) *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 and/or fines on Harborside's operations.

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 Q2 2021 Financial Statements in all material aspects.

Approval

The Audit Committee has reviewed the Q2 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 Q2 2021 Financial Statements and the disclosures contained in this MD&A.

August 30, 2021

Matthew Hawkins
Interim CEO and Director